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ADMINISTRATION'S ASSESSMENT OF 1982 MEETING OF THE MINISTERS TO THE GATT

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

JANUARY 25, 1983

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ADMINISTRATION'S ASSESSMENT OF 1982 MEETING OF THE MINISTERS TO THE GATT

TUESDAY, JANUARY 25, 1983

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 9:35 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Robert Dole (chairman) presiding.

Present: Senators Dole, Roth, Danforth, Heinz, Grassley, Long, Bentsen, Matsunaga, Baucus, Bradley, Mitchell, and Pryor.

[The press release announcing the hearing, and prepared statements by Senators Dole, Roth, Danforth, Heinz, Grassley, Bentsen, Baucus, Bradley and Mitchell follow:]

[Press release No. 82-174]

FINANCE COMMITTEE SETS HEARING ON GATT

Senator Robert Dole, Chairman of the Senate Committee on Finance, today announced that the Committee would hold a hearing on Tuesday, January 25, 1983 at 9:30 a.m. in Room 2221 of the Dirksen Senate Office Building to receive the Administration's assessment of the recently concluded meeting of ministers to the General Agreement on Tariffs and Trade. The Chairman further stated that as part of this review, the Committee would seek to assess the prospects for continued active participation by the United States in the GATT.

Written testimony: While only Administration witnesses are expected to testify at this hearing, the Committee would welcome written comments from the public on the subject of the hearing.

These written statements should be typewritten, not more than 25 double-spaced pages in length, and mailed with five copies to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Friday, February 4, 1983.

STATEMENT OF SENATOR BOB DOLE

Ambassador Brock, I welcome you today to discuss with the Committee on Finance the results of the November meeting of ministers to the General Agreement on Tariffs and Trade, and more generally, the state of the multilateral trading system. I know that you may not be able to address some related issues in advance of the President's State of the Union address tonight and the final decision on the budget. I hope the Committee members will have mercy on you in this regard!

IS THE GATT VIABLE

Nearly fifty years ago, the Congress enacted legislation spawning the reciprocal trade agreements program as the foundation of U.S. trade policy. The fundamental principles of that program—nondiscrimination and reciprocity in extending trade benefits—remain the cornerstones on which this country builds our trading ties with ever-increasing numbers of partners abroad. The negotiating authority and objectives specified in the Trade Act of 1974, the guides to current U.S. policy, firmly reiterate the past five decades of U.S. practice.

From the first bilateral reciprocal trade agreements through the post-war development of the multilateral GATT system, the twin principles of nondiscrimination and reciprocity have served the United States well. From a meager $23 billion in 1953, total U.S. merchandise trade grew to over $500 billion in 1981, including $236 billion in exports. Merchandise trade as a percent of GNP nearly tripled to about 16 percent in the past three decades, with exports supporting about 15 percent of our labor force. Of course, the fast-growing service sector of our economy has rapidly assumed a significant place in international trade as well: the U.S. exported $137 billion in services in 1981. There has been a concomitant increase in international direct investment. U.S. firms increased their foreign investments nearly 20 times since 1950, to a present total of $377 billion.

I recite these data as a reminder of how the United States economy is now inextricably a part of the world economy. We have benefitted greatly from fostering this interdependence, just as we now are suffering some of the drawbacks. We have a very large stake in the success of our international economic relations.

I thus was greatly disturbed by what I saw in November at the GATT Ministerial meeting. Despite your extraordinary efforts, Ambassador Brock, the results of that meeting suggested to me—and I suspect to Senators Danforth and Grassley, who also attended—that the viability of the GATT may have been called into serious question. The United States' desire to meet head-on the issues of subsidies, safeguards, services, performance requirements, counterfeiting, and others was met with institutional paralysis. I hope to begin to explore today whether politically and procedurally the GATT, with over 100 diverse members, is capable of meeting the challenges of today and tomorrow. Are there preferable alternatives to the GATT that will foster trade by achieving overall reciprocity and nondiscrimination?

I hope Ambassador Brock will shed light on whether the GATT still offers an effective forum in which to pursue U.S. trade policy.

U.S. COMPETITIVENESS IN AN INTEGRATED WORLD ECONOMY

The direction of the GATT, however, is but one facet of the complex set of trade issues we must address in this Congress. Despite the national wealth trade expansion has wrought, 1983 promises to continue the recent trend of increasing merchandise trade deficits. Some predict a $75 billion trade deficit that will reverse by a large amount our historic surplus of current account. The state of the world economy, and its effects on the United States, requires the development and coordination of sound domestic economic strategies as never before.

A major problem will be the relationship of trade and lending policies. Total world debt now exceeds $600 billion, with quite a number of countries near default. Near default or not, all countries seek to break the weight of recession by exporting more and importing less; indeed, the international financial institutions may condition lending aid on this basis. But, obviously, not everyone can do so. What is the U.S. approach in this regard? Are the IMF and GATT jointly addressing these debt issues?

Our integration into the world economy requires a searching look at U.S. industrial competitiveness and government policies that foster or debilitate it. For example, not only must we review the merchandise by which we address the most common trade-distorting practices, it is time to reflect deeply on the implications of the trade effects of other nations' industrial policies, particularly the targeting of U.S. industries. Restoring the reputation of the U.S. and its firms as reliable trading partners is another high priority of mine. Reconstituting the DISC and other steps to minimize restraints on U.S. exports will also receive early Congressional attention. Finally, at hearings on unemployment which we will have in the near future, we must look at industrial adjustment policies and mechanisms.

The policies and practices of other nations can defeat our efforts to be fully and fairly competitive. We must therefore seek means to ensure that nondiscrimination and reciprocity of benefits continue to underlie the implementation of our trade agreements. The recent government-assisted sale of wheat flour to Egypt was a welcome sight that the Administration will defend our export markets against subsidized competition. I was pleased also with the measures announced by Prime Minister Nakasone. I hope that this time the measures will truly produce significant market-opening results in Japan. The current substantial imbalance cannot continue to be based, as it is in part, on one sided extension of trading opportunities.

The trade agenda for the 98th Congress is thus full. But I see these demands in terms of the opportunities they offer to "recapitalize" our trading position, with the consequent contribution vigorous trade can make to economic recovery. I look forward to working with you, Ambassador Brock, and Senators Danforth, Long, Bentsen and all the other Committee members on these issues.

STATEMENT BY SENATOR WILLIAM V. ROTH, JR.

I wish to thank the Chairman for convening this hearing on the General Agreement on Tariffs and Trade (GATT) and the recent ministerial-level meeting of the contracting parties. There is no question the GATT is suffering from a terminal illness. Unless we take action soon, the patient will die.

The GATT was designed in the 1940s to handle the problems of the day, namely prohibitively high tariffs. Since that time, while tariffs have indeed come down in most developed countries, the great minds in nearly every nation around the globe have dreamed up new and better schemes to keep out foreign goods and services.

Countries use a wide variety of barriers and trade-distorting mechanisms such as special subsidies, domestic investment incentives and benefits for government-owned industries to capture a bigger share of the world market. Trading practices become more and more unfair, American workers are driven out of their jobs by the thousands, and U.S. factories and farms steadily decline.

And when we try to put a stop to these practices, as we did at the GATT meeting in November, the response proved conclusively what we have suspected for some time: that the GATT is virtually useless when it comes to dealing with the trade problems of today.

The GATT is worse than a paper tiger. It's a paper mouse, bogged down in dotting the "i's" and crossing the "t's" in its working documents while a world trade war rages all around it.

It's just like Nero fiddling while Rome burned.

No, the GATT is not relevant for today's trading problems. Even the agreements so arduously negotiated during the 1970s Tokyo Round of GATT talks are not working. The Government Procurement Code, which held such promise of increased market opportunities, has fallen flat on its face. The Subsidies Code has not stamped out subsidies, and the dispute settlement mechanisms have failed to help us resolve trade confrontations.

Currently, at least ten unfair trade practices complaints brought by the United States are tied up in the GATT, some for as long as 7 years. U.S. producers of goods ranging from wheat flour to poultry, from citrus juice to specialty steel, have seen their international market share stolen away while the GATT convenes panel after panel to "consider the problem."

The process is just not working. The GATT is not doing anything like an adequate job of upholding free trade. I can no longer tell my farmers, my steel workers or my chemical firms, "We'll take up your problem in the GATT and make sure that all nations play fair." That promise rings hollow in light of the repeated failures of the multilateral system to knock down trade barriers.

Moreover, we seem to be the only nation that cares whether the GATT works or not. November's Ministerial meeting showed only too clearly that, when push comes to shove, other countries would rather make the world trade pie smaller than give up the special advantages and protections they afford their own traders.

Unless the GATT begins to deal effectively with those unfair advantages, it will have to be abandoned.

It is clearly time to question the basic premises of GATT—most favored nation trading status for all who seek it and special preferences for developing countries. When other countries refuse to play fair, it's time to ask, "What's in it for us?"

At the same time as we assess our international institutions, we should also take a serious, in-depth look at our own governmental structure for trade.

I am convinced that our international problems are only compounded, not ameliorated, by a Federal governmental structure for trade here at home which is in utter chaos. Right now, two, three, even four agencies speak for the United States on trade.

No wonder other countries don't take us seriously!

Because I feel so strongly that we need a better trade policymaking operation in this government, I will be introducing legislation to create a Department of Trade. I believe it is high time we have a single strong voice for trade in the Executive Branch—one that will champion our international rights, secure foreign market opportunities, and put trade at the top of our list of national policy objectives.

I have scheduled hearings on this legislation for March 1 in my Governmental Affairs Committee, and I plan to move rapidly to see it enacted.

This new Congress gives us a chance to take a fresh look at the trade challenges of the 1980s and 1990s. It is about time we got started.

STATEMENT OF SENATOR JOHN C. DANFORTH

On May 6, 1982, Senator Bentsen and I introduced a resolution expressing the Sense of the Senate about the November meeting of signatories to the General Agreement on Tariffs and Trade (GATT). This resolution later passed the Senate unanimously. As a reflection of what the Senate hoped would be accomplished in Geneva, it is a good yardstick with which to judge the results of the GATT Ministerial.

First, the resolution urged that the Tokyo Round trade agreements, which the Congress approved and implemented in the Trade Agreements Act of 1979, be reviewed to determine whether they are adequate to achieve their intended purposes. Of particular concern to our Subcommittee members has been the Subsidies Code because of the use of agricultural export subsidies by the European Communities.

That little beyond the exchange of heated rhetoric on this matter was achieved at the Ministerial was clearly evident to those of us who attended.

Second, the resolution called for a commitment among GATT members to commence negotiations on issues that are increasingly affecting world trade. These issues include trade in services, trade-related investment restrictions, trade in high technology products, and safeguard measures.

Some of these were more adequately addressed than others in the final Declaration of GATT Ministers. Others, like high technology and trade-related investment issues, were not addressed at all.

Finally, the resolution called for this country to take the lead in promoting the establishment of commissions to analyze, as a prelude to future negotiations, important distortions of trade that are radically different from anything heretofore addressed on a multilateral basis. Of particular concern are the growing number of government policy initiatives that threaten to distort trade and, thereby, the international system as it exists today.

As a decision largely left up to our own government, this opportunity has not yet been lost. Like the Williams and Ray Commissions of the late 1960s and early 1970s which laid the foundation for the Tokyo Round, the establishment of such a group or groups of private and public sector experts is a decision well worth making.

The question really facing this Committee today, however, is where do we go from here—now that the Ministerial is behind us and the jury is still out on those few commitments that were made in Geneva.

Clearly, we cannot afford to sit idly by—only to see our export interests undermined. Just as clearly, though, we cannot afford to abandon the international system. If it did not exist, surely we would have to create it.

Therefore, I would contend that we must forge ahead—living up to existing agreements but not letting their inadequacies stifle our progress.

As regards agreements in the Tokyo Round, we must continue to oversee their implementation—whether in the area of government procurement, standards, or subsidies. In the case of agricultural export subsidies, we have all, perhaps engaged in far too much rhetoric—Americans and Europeans alike. We all know politicians act when they feel it in their interest to do so. It is now in our interest to do so.

If targetted export subsidies are our only means of protecting markets abroad for American farm products—so be it. If, in the meantime, European politicians decide it is in their interest for all of us to get together to resolve our difference once and for all—so much the better.

As regards services, high technology and trade-related investment matters, there is no reason why we should not bring our own laws into the 1980s. That we should continue to pursue international arrangements to deal with these problems is clear. That we should wait for their conclusion, however, would be foolish to the extreme. Whether international agreements exist or not, we must be committed to look after American trade and investment interests.

These matters were all addressed in the Reciprocal Trade and Investment Act that a number of us introduced last year. When the bill is reintroduced in the 98th Congress, I would expect to work closely with members of this Committee and the Administration to achieve its prompt enactment into law.

I shall not repeat my earlier comments on the need for a new, bipartisan commission to explore future trends in our international trading system. Suffice it to say this is a program worth undertaking.

STATEMENT OF SENATOR JOHN HEINZ

This hearing inaugurates the Finance Committee's trade agenda for the year, and I think it is fitting that our witness today is Bill Brock, our U.S. Trade Representative, who can report on the results of the Ministerial and suggest to us what sort of trade agenda they imply.

This will be no easy task. Despite heroic efforts by Ambassador Brock, his staff and other agency personnel, it is hard to view the Ministerial as anything other than a disappointment. Not because immediate agreement was not reached. Not because we failed to achieve all our objectives. But rather because our trading partners showed so little interest in making the institution work to deal with the problems of the 1980's.

As Ambassador Brock knows so well, the world marketplace is changing rapidly: New actors—the Newly Industrializing Countries—are flexing their muscles. New sectors, such as services and high technology, are growing in significance. Barriers to other nation's markets hamper our growth. Growing protectionism threatens everyone's growth.

Coping with these changes demands a dynamic and resilient institution. And it is that challenge that the GATT has so conspicuously failed to meet.

More than a year ago I called for a new Bretton Woods Conference to tackle this problem and develop a new institution better equipped to deal with today's world. I was pleased to note both Administration officials and private sector experts have recently issued this same call.

A new Bretton Woods, however, is probably far away. In the short term we have to try to solve these problems through existing channels—unilateral, bilateral, and multilateral. And that modest task will constitute the committee's agenda for this year.

Some of those problems—restoring our export competitiveness through an expanded Eximbank and an export control program that maintains our companies' credibility as suppliers—are in the jurisdiction of the Banking Committee, where work has already begun. Still others, such as increasing the funds available to the International Monetary Fund to ease the international debt crisis, will involve the collective work of many senators and congressmen.

To the Finance Committee, however, falls the responsibility of developing approaches to two problems. First: the failure to instill greater discipline in the GATT, and second: a trade policy strategy for both our contracting industries faced with increased foreign competition, fair and unfair, and our growth industries, such as high technology, who also face increased competition.

With regard to greater international discipline, we already have a vehicle—the reciprocity bill. It should have passed last year, and I hope the Committee will act on it immediately this year. I also hope that the Administration will display as much enthusiasm for it as it has for the Caribbean Basin bill.

With regard to problems of structural adjustment, more work is needed. I will shortly propose legislation linking meaningful import relief more closely to real adjustment by domestic industries. Other senators will have industrial policy proposals. All of them must be accompanied by a renewal of the trade adjustment assistance program in a more effective form. Adjustment is a painful, difficult process, but it is essential to the idea of free trade. Without adjustment, protectionist pressures will be insurmountable. With it, we can simultaneously help restore our economy to health and speak with credibility abroad when we insist that other nations take those hard steps necessary to making the free market operate. This area, too, is one where I hope the Administration will have a positive contribution to make.

Mr. Chairman, this is a heavy load in the trade field—at a time when the Committee already has a full agenda of other matters. Nevertheless, they are critical items. Almost 150 years ago, Benjamin Disraeli said, "Free trade is not a principle. It is an expedient." Today protectionism is becoming the expedient while free trade is rapidly becoming nothing more than a principle. Restoring the free market globally—in fact as well as in theory—must have our highest priority.

STATEMENT OF SENATOR CHARLES E. GRASSLEY

If there is one overriding issue in world trade today, it seems to me it is the question of the relevance of the general agreement on tariffs and trade. When GATT was established in 1947, the United States was supreme in technology, management skills, and productive capacity. Since that time, the structure of the world economy has changed dramatically, and developed and developing countries have become stiff competitors for our domestic and export markets. As a delegate to the GATT ministerial meeting, a majority of my time was geared to the impact the European Community (EC) export subsidy on agricultural products has on American farm exports. I came away extremely disappointed.

The unfortunate reality is that the issues we discussed at the 1982 GATT ministerial are not much different than the choices that were before us in the early 1970's. In a report to the President submitted by the Commission on International Trade and Investment Policy, dated July 1971, I would like to quote the following:

"We face critical choices. The welfare of our people--perhaps even the prospects for world peace, stability, and development—will depend on the wisdom and the realism with which we and other countries adapt to the changed circumstances of the seventies.

"The next few years will determine:

"Whether our people can enjoy the benefits of open channels of trade and investment while coping with the real human problems of adjusting to rapid economic change;

"Whether the world will drift down the road of economic nationalism and regional blocs or will pursue the goal of an open world economy;

"Whether the European Community and Japan will accept responsibilities commensurate with their economic power;

"Whether we can evolve with our trading partners a sound international monetary system reconciling domestic and international economic objectives;

"Whether developed and developing countries can mobilize the will and resources to cope with global problems of poverty, population, employment, and environment deterioration; and

"Whether we can seize new opportunities for improved political and economic relations with the Communist world.

"To meet these challenges, the United States must develop new policies that serve our national interest—a national interest which comprehends a prosperous and congenial world."

What we face today is not that different than the challenges faced in the 1970's. Twenty years ago, President Kennedy called world trade a rising tide lifting all boats. Unfortunately, as in the 1970's, today we can no longer view trade in such a light, as globally we face an industrial recession in most developed nations, and a mini-depression in some undeveloped countries. As a result, we are grappling for concessions, places to expand our trade, protection of our domestic industries, and blaming other nations for the high rate of unemployment we are now experiencing. Unfortunately, it is politics and market forces that are determining the direction and content of trade flows. The America farmer and industrial worker are not competing with European farmers and European industrial workers, but, instead, with agricultural subsidies and export credit financing. The Japanese are using predatory pricing and targeting high-tech advancements, not to mention inundating our ports with Japanese autos.

The United States represents the biggest import market in the world; and, by and large, we made our marketplace available to our trading partners with relatively few restrictions. On the other hand, market barriers the American producer faces overseas come in many guises. As a result of the outcome of the GATT ministerial meetings, the time has come to let our trading partners know that we are no longer willing to tolerate one-way streets. The stakes are enormus.

The lure of protectionism, although tempting, should be approached with caution and rational thinking, during this emotional and heated time. We should focus not only on the markets that we want to penetrate by using the resources available to us, but also the markets we may lose on the trade surplus of our balance sheet if we are overzealous.

The task of our political leadership is to understand the gravity of the position we are in and to begin to shape a trade policy that makes sense to our farmers, our industries, and our trading partners in the 1980's. It must, however, be a policy which the American people can believe and our trading partners can be convinced is in their best interest as well as ours. We must not only establish a trade policy; we have to grapple with Western economic growth as well.

At this point, I would like to go back to the report to the President submitted by the Commission on International Trade and investment policy, dated July of 1971, in which, I quote:

"There are unmistakable signs in the United States of developing crisis of confidence in the system. The crisis is reflected in:

"Mounting pressures in the United States for import restrictions as foreign-made textiles, clothing, shoes, steel, electronic products, and automobiles penetrate our market;

"Growing demands for retaliation against foreign measures which place American agricultural and other products at a disadvantage in markets abroad;

"A growing concern in this country that the United States has not received full value for the tariff concessions made over the years because foreign countries have found other ways, besides tariffs, of impeding our access to their markets;

"Labor's contention that our corporations, through their operations abroad, are 'exporting jobs' by giving away their competitive advantage the United States should derive from its superior technology and efficiency;

"A sense of frustration with our persistent balance-of-payments deficit and a feeling that other countries are not doing their fair share in making the international monetary system work;

"An increasing concern that the foreign economic policy of our Government has given insufficient weight to our economic interests and too much weight to our foreign political relations; that it is still influenced by a 'Marshal Plan Psychology' appropriate to an earlier period.

"Overhanging these doubts and frustrations is the belief that we have lacked the sense of priorities and the organization to deal effectively with our foreign economic relations; that responsibilities in the executive branch have been unclear and authority fragmented; that Congress and the private sector have not been adequately brought into the policymaking process; that effective machinery has not existed for integrating the interrelated parts into a coherent foreign economic policy that would serve our national objectives.

"The new mood in the United States has not gone unnoticed abroad. Questions are being raised in Europe, Japan and other countries about the capacity of the United States to deal with its domestic economic problems and about the consistency and direction of its foreign economic policies."

"Twelve years later, we face exactly the same concerns raised in this report. For that reason, on November 30, 1982, I wrote to President Reagan to suggest that he immediately call together a bipartisan group of this country's political, business, labor and farm leaders along with members of the academic community to set an economic and trade agenda for this Nation in the 1980's.

"I believe the President can take an important first step in diffusing pressure for unwise executive or legislative action, with possible dire consequences globally, by calling for a domestic economic and trade summit. There is certainly no shortage of challenges that face us in the 1980's, however, as in the past when the American people have been put to the task they have shown the world they have no shortage of creative solutions to those challenges.

Mr. Chairman, I have also taken the liberty of sending a copy of my proposal to members of the President's Export Council. I have several responses from individuals relative to this proposal, most of which are very favorable. For the record, I would like to submit them to the committee at this time. It is also my intention to resubmit my request to the President for him to call for an immediate domestic economic and trade summit, and I invite my colleagues on this committee, as well as colleagues in the Senate as a whole to join me in cosponsoring that letter to the President.

THE WHITE HOUSE
WASHINGTON

'82 DEC 10 PM 3:29

December 9, 1982

Dear Senator Grassley:

This is just to assure you that your recent letter, calling for a "Domestic Economic and Trade Summit," has been brought to the President's direct attention. We very much appreciate having your specific recommendations in this regard, and please know that your letter is also being shared with the President's trade advisers. I am certain that the suggestions you have outlined will be promptly and thoroughly reviewed.

With best wishes,

Sincerely,

Ken D.

Kenneth M. Duberstein
Assistant to the President

The Honorable Charles E. Grassley
United States Senate
Washington, D.C. 20510

THE WHITE HOUSE
WASHINGTON

January 14, 1983

Dear Senator Grassley:

This is in further response to your letter giving your views on the outcome of the GATT Ministerial meeting and proposing a domestic economic and trade summit meeting. The President greatly appreciates the helpful role which you and your colleagues played at the GATT meeting.

We also appreciate your concern about the difficult international economic situation and the importance of free trade to the United States economy. We need to give fresh and creative thought to resolving such problems as market access, export credits, agricultural subsidies and technology transfers. The convening of a domestic economic and trade summit may well be a needed catalyst toward this end.

Conferences of the type you propose have been useful in the past. In the early 1970s, for example, President Nixon established a Commission on International Trade and Investment Policy to review international economic issues. This so-called Williams Commission, named after its Chairman, Albert L. Williams of IBM, brought together a collection of leaders from the private sector and academia. In addition, the Commission was supported by a professional staff that produced a comprehensive series of papers on the major international economic issues of the day. Conclusions were drawn from these papers, reviewed by the Commission and forwarded to the President. Perhaps a similar exercise incorporating Congressional and Administration representatives as well could be useful at the current time. Alternatively, the convening of one formal session to focus public interest on these problems might also be useful.

Ambassador Brock is looking into this matter. I am sure that he and his staff will be in contact with you shortly.

With best wishes,

Sincerely,

Ken D.

Kenneth M. Duberstein
Assistant to the President

The Honorable Charles E. Grassley
United States Senate
Washington, D.C. 20510

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

January 7, 1983

The Honorable Charles E. Grassley
United States Senate
Washington, D.C. 20510

Dear Chuck:

Thank you very much for your recent letter expressing the need for a Domestic Economic and Trade Summit. I read with interest your statement to the Senate of December 1, 1982, and agree that we must turn to resolving the difficult economic issues that face us with renewed vigor and creativity.

As you may be aware, one of the elements of the Trade Strategy for the 1980's, which this Office prepared for the President, was the establishment of a commission to examine the problems you outlined in your letter. I am looking into how such a summit meeting or commission might be organized and what issues should be discussed. I appreciate your views and support in this endeavor.

Very truly yours,

WILLIAM E. BROCK

WEB:hjcs

THE SECRETARY OF COMMERCE
WASHINGTON

January 17, 1983

Honorable Charles E. Grassley
United States Senate
Washington, D.C. 20510

Dear Chuck,

Thank you for your letters to Under Secretary Olmer and me regarding a call for a Domestic Economic and Trade Summit. The notion of bringing together experts from business, labor, academia, government and the agricultural sector to review our trade policy is a useful one.

There have been precedents in the past. In the early 1970s, the President created the Commission on International Trade and Investment Policy (the so-called Williams Commission) to review the major issues in international trade. That exercise provided useful information and policy guidance which were effectively used in the Multilateral Trade Negotiations (MTNs) of the latter 1970s.

A decade later, we face a host of new international trade problems which, as you saw at the GATT Ministerial, are proving to be increasingly intractable. A conference which would draw attention to the trade difficulties we are facing in services, investments, high technology, agriculture, and other key trade sectors could be extremely useful.

The White House has approved a proposal for such a conference as put forth by Bill Brock.

Sincerely,

Mac

Secretary of Commerce

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777 14th Street, N.W., Washington, D.C. 20005
Telephone 202 383 1000

January 4, 1983

Mr. Bob Ludwiczak
Administrative Assistant
Office of the Honorable Charles Grassley
United States Senate
Washington, D.C. 20510

Dear Bob:

You brought to our attention a speech that Senator Grassley delivered to the Senate on December 1 on the subject of U.S. trade policy and asked for our reactions to it.

In our view, the Senator is absolutely correct in observing that this is a critical time for world trade policy and also a time when the U.S. needs to consider most carefully its responses to the challenges we face in this area.

In this regard, we can well appreciate the Senator's disappointment with the outcome of the recent GATT ministerial meeting and his frustration with GATT's seeming inability to stem the tide of fresh trade-distorting measures in many parts of the world.

However, in considering a U.S. response to this situation, we felt it is important not to underrate either the tremendous strides that have been made under GATT since its establishment in 1948, or the sheer intractability of the problems we now face in the international trade arena. If we do so, we may be unwisely tempted to resort to similar negative, unilateral actions to those we are presently criticizing others for having taken.

With these thoughts in mind, we fully support Senator Grassley's proposal that the President call together a bipartisan group of political, business and labor leaders, together with members of the academic community, to set an economic and trade agenda for the 1980's. This proposal, we believe, would lead to the kind of considered review of current trade issues and of alternative U.S. responses that the present somewhat emotionally-charged situation urgently requires.

In developing their approach to trade policy, we would respectfully suggest that the work of the high level group might be guided by the following broad principles:

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1. U.S. policies should be fully consistent with our current obligations under GATT and other international agreements.

2. We should stress multilateral rather than bilateral or sectoral solutions.

3. We should focus on strengthening existing international institutions and expanding international agreements to include areas such as services, investment and high technology not presently covered by those institutions and agreements.

4. We should seek ways to strengthen the negotiating mandate of the President in his efforts to achieve a more liberal world trading system.

These suggested principles reflect two major thrusts to our present thinking. First, we believe we need to consider legislation to clarify and strengthen the President's authority to negotiate new international agreements in areas not adequately covered by existing GATT mechanisms. Second, we believe we should continue to support the concept of multilateral trade negotiations and adhere to the principles on which GATT was founded. Consistent with this, we should seek, over time, to extend GATT mechanisms to those areas where presently they are inadequate or non-existent.

We trust the Senator's thinking is broadly along these lines also. Assuming that to be the case, we look forward to working with him and his staff in translating them into more concrete terms and ultimately into needed actions.

Sincerely,

Robin Broadfield

Robin Broadfield
Vice President
International Affairs

Great Lakes Carbon
Corporation
Office of the President

299 Park Avenue
New York, NY 10171
212 605-1001

January 10, 1983

The Honorable Charles E. Grassley
United States Senate
Washington, D. C. 20510

Dear Senator Grassley:

I read with great interest your December 1, 1982 remarks on the Senate floor regarding world trade. While I do not believe that the recent GATT ministerial meeting was as unproductive as you suggest, nevertheless, I agree with your conclusion that more is needed to cope with this very difficult issue. Accordingly, I have sent the enclosed letter to President Reagan suggesting that he convene a summit along the lines proposed by you.

Sincerely,

John P. Sachs

JPS:vh
enc.

Great Lakes Carbon Corporation
Office of the President

299 Park Avenue
New York NY 10171
212 605 1001

January 10, 1983

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

I would like to commend Special Trade Representative Brock for the admirable job he performed in representing the United States at the recent GATT ministerial meetings. Those meetings served to put us all on notice of the difficulties we face as a nation in resolving our trade difficulties.

In that connection, it seems to me that an idea floated recently by Senator Grassley is worth a try. The Senator suggests that you convene a domestic economic and trade summit to establish a trade policy for the 80's. Such a group would include experts from several fields, including business and labor, government and academia. The group could explore issues such as fair access to world markets for U.S. products; a truce in export credit wars; removal of restrictions on American producers by the U.S. Government; and enhancement of the competitiveness of our ailing industries such as steel.

There would appear to be nothing to lose and the country might realize great gains from such a move. I would urge you to convene a summit along these lines as soon as practicable.

Sincerely,

John P. Sachs

JPS:vh

Douglas F. Glant
President & Chief Exec Officer
Pacific Group

Pacific
Group

January 4, 1983

Honorable Charles E. Grassley
U.S. Senate
Washington, DC 20510

Dear Senator Grassley:

I read with interest your letter of December 17 regarding foreign trade. I met you at an APAC meeting in 1981 and was impressed then. I am equally impressed by the thought that has gone into your trade proposals. I agree with most of your issues, though I am concerned about a cabinet-level office unless there is some way of controlling the size and cost of such an operation. I think I would rather see Commerce or the USTR's role beefed up to achieve the same result.

I also agree with your idea concerning a Trade Summit, but I am concerned that in calling such a group together the small business community as well as the small farmer are not left out, as they usually are when such groups convene.

I am sending copies of this letter to several friends in the Senate as well as to the President, the Secretary of Commerce, and the USTR.

Sincerely,

Douglas Glant

Douglas F. Glant
Member
President Ronald Reagan's Export Council

DFG:gp

cc: President Reagan
Senator Slade Gorton
Senator Henry M. Jackson
Senator Robert Packwood
Senator Steven Symms
Senator Frank H. Murkowski
Senator Rudy Boschwitz
Senator William V. Roth
Malcolm Baldrige
William Brock
Congressman Rod Chandler
Congressman Thomas S. Foley
Congressman Joel Pritchard

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Robert G. Schwartz
Vice Chairman of the Board

Metropolitan
Life Insurance Company
One Madison Avenue
New York, N.Y. 10010

The Honorable Charles E. Grassley
United States Senate
Washington, D.C. 20510

Dear Senator Grassley:

As a member of the President's Export Council, I thank you for your recent letter regarding a Domestic Economic and Trade Summit. While some of the effort may duplicate work done by PEC, I think the foreign trade issue is extremely important and should have a great deal of attention focused upon it.

I am concerned by the rising protectionist sentiment both here and abroad, yet recognize that "free trade" means many different things to different nations, and that a common set of rules for international trade has to be developed and followed by all nations. A meeting such as you suggest might help to produce some positive approaches to this complex problem and demonstrate to the rest of the world that the U.S. is concerned and seeking to effect a unified national approach to the foreign trade question.

One suggestion would be to focus on trade and only those domestic economic policies relating to trade. Too broad an emphasis on domestic economic policies would detract from the international issue.

Sincerely,

Robert G. Schwartz

Vice Chairman of the Board

December 28, 1982

Monsanto

RICHARD J. MAHONEY
President and
Chief Operating Officer

Monsanto Company
800 N. Lindbergh Boulevard
St. Louis, Missouri 63166
Phone: (314) 694-3756

January 10, 1983

The Honorable Charles E. Grassley
232 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Grassley:

I want to thank you for the opportunity to comment on your letter suggesting that the President call for an immediate Domestic Economic and Trade Summit. Monsanto is very interested in international trade, and our company participates on several industry committees that deal with international trade.

We would welcome a "constructive dialogue" on international trade and economic matters that would help the President and Congress frame an international trade policy, and we would be happy to participate in the process.

Thank you very much for contacting Monsanto, and I look forward to the opportunity to work with you in the future on international trade and economic matters.

Sincerely,

Richard J. Mahoney

RJM/cc

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

December 30, 1982

Dear Senator Grassley:

For the Secretary, I wish to acknowledge your letter of December 17 requesting support for a Domestic Economic and Trade Summit to establish a U. S. trade policy.

You will have a further response as soon as possible.

Sincerely,

W. Dennis Thomas
Assistant Secretary
(Legislative Affairs)

The Honorable
Charles E. Grassley
United States Senate
Washington, D. C. 20510

PHIFER
INTERNATIONAL
SALES Inc.
K GORDON LAWLESS SENIOR VICE-PRESIDENT
MEMBER U.S. PRESIDENTS EXPORT COUNCIL APPOINTED 1981

January 4, 1983

1983 JAN 11 AM 5:07

Senator Charles E. Grassley
United States Senate
Washington, D. C. 20510

Dear Senator Grassley:

Thank you for your letter of December 17, 1982, asking my advice and assistance in the matter of getting the President to summon a Domestic Economic and Trade Summit immediately consisting of experts from the field of business, labor, government, acedemia and the farm sector. As I understand your proposal, it is designed to establish a long-term trade policy for the 80's.

I have read your statement in the December 1, 1982 Congressional Record - Senate, and I certainly share your concern on the matter of subsidies and other trade impediments designed to restrict the flow of trade between countries. The subject of trade impediments and subsidies has been a constant matter of study of the President's Export Council, particularly the committees that are assigned to study incentives and disincentives to world trade. At the last meeting of the PEC, Ambassador William Brock gave an overview of the GATT Ministerial Meetings and while his presentation did not necessarily alarm members of the PEC, the members are certainly aware of the complexity of the problems that you present.

The solutions to these complex problems, as you very well point out, should be the product of rational and cool minds so that these solutions do not unbalance the flow of trade that we are so dependent upon in our manufacturing, agricultural and services sector. I have observed that a large number of business leaders have a superficial view of world trade and when you bring groups together, the emotionalism generated could result in a wave of trade barriers that we could live to regret. Only a certain sector of the business community who have been trading overseas for many years understand some of the complexities of the problem. I am still learning after 20 years and although my company's problems are totally different from those expressed in your Congressional Record, I can see why you developed your view after the experience at the GATT Ministerial Meeting. Problems with subsidies are not uncommon. We have the problem with Australia, for example, where we must meet subsidies on products that we can sell in third countries and compete with the Australians. Canada limits our exports with high tariffs. Brazil keeps out anything that we manufacture. We have relatively free access to the European community countries and to Japan.

I can well agree that the agricultural community certainly has a concern to be aired at the proper forum. Rather than appointing a new forum to seek solutions, I would prefer to see the President's Export Council as a forum because many members of the forum are involved in the agricultural sector, like John R. Block, Secretary of Agriculture; Allen Grant, immediate past President of the American Farm Bureau; Honorable Charles Thone, Governor of the State of Nebraska; Senator Donald E. Lukens,

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of the Ohio Senate; and others with export experience. Serving on the President's Export Council can provide a friendly forum for seeking solutions. The Council also includes Bill Brock, the United States Trade Representative, who attended the GATT Ministerial with you. I am sure that Chairman J. Paul Lyet of the PEC would be willing to make a place in the agenda of the discussion of this topic and for airing solutions.

I want to thank you for the honor that you have bestowed in asking me for my advice and assistance and I certainly want to thank you for your contribution to the subject of world trade. If I can be of any further assistance, please let me know.

Yours truly,

PHIFER INTERNATIONAL SALES, INC.

K. Gordon Lawless
Senior Vice-President

KGL/le

cc: J. Paul Lyet

1983 JAN 11 AM 1:24

Robert W. Galvin
Chairman of the Board

January 6, 1983

The Honorable Charles E. Grassley
United States Senator
United States Senate
Washington, D.C. 20510

Dear Senator Grassley:

Thank you for asking my opinion regarding the convening of a Domestic Economic and Trade Summit immediately.

I am encouraged by your sensitivity to the seriousness of the issues that would be the subject of such a summit. I am particularly encouraged by your sensitivity to politics overriding market forces, your concern for subsidization, predatory pricing, and targeting. These are issues of the real world of trade that must be more effectively dealt with.

My caution with regard to dealing with the issue is that we should not convene, or even announce, a summit without better private preparation. I do not know all of the factors, but the leaders like Mr. Brock, Mr. Baldrige, and certain White House personnel et al., ought to have a reasonable meeting of the minds regarding objectives and the range of solutions which might be countenanced.

I have the impression that there are so many spectrums of potentially acceptable or unacceptable solutions that a domestic summit at this instant may risk failure. The Japanese, for example, would be encouraged by such failure because it would further reinforce the fact that the Americans do a lot of talking but don't really have any effective means of countering their approach. Other countries could take equal comfort. I recommend that there be some preconditions before we dive further into a highlighted public session.

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Organizations like the Industry Policy Advisory Committee can help to move us into a comfort zone, and we should move to that position early and then possibly the summit could play a useful role. I will take the liberty of bringing your subject up for the Committee's review when it meets on January 17.

Best wishes,

Robert W. Galvin

RWG:dma

U.S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON, D.C.
20210

December 22, 1982

Honorable Charles E. Grassley
United States Senate
Washington, D.C. 20510

Ref: Domestic Trade Summit
ECO #07970

Dear Senator Grassley:

Secretary Donovan has asked me to thank you for your letter of December 17. You may expect a response from the Secretary in the near future.

Sincerely,

Karl E [illegible]

Ruth E. Morgenstern
Director
for Executive Secretariat

SINGER

J. B. FLAVIN
CHAIRMAN
CHIEF EXECUTIVE OFFICER

January 4, 1983

The Honorable Charles E. Grassley
United States Senate
Washington, DC 20510

Dear Senator Grassley:

Thank you for your letter regarding international trade and your invitation to express my views on this subject.

First, I enthusiastically endorse the concepts in your remarks to the Senate on December 1, 1982. Protectionism has without question emerged as a key issue which must be addressed by both government and business if we are to preserve the world trading system in face of the current economic decline.

The overriding priority, I believe, is to somehow convince Japan that it must either open its borders to U. S. products, including those in the agricultural, financial services, and high technology areas, or else transfer more of its production to the United States as a means of creating domestic jobs here. The essential point is that no nation can expect to have it both ways by exporting freely into the United States, then closing its home market to our producers.

Of course, we also need to deal with other nations as well, especially on the matter of farm subsidies. Your proposal for a Domestic Economic and Trade Summit, therefore, is timely and I would support such an effort provided its agenda is oriented to the specific actions needed to stem the current rising tide of protectionism. I am convinced that the trading environment has deteriorated to the stage where rhetoric and negotiations are insufficient to combat the barriers and subsidies that are increasingly evident. The imperative now is to devise

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targeted measures which demonstrate that the United States is serious about freedom of trade, and that we are prepared to act in tangible and decisive ways to achieve that objective.

You may be interested in an article I recently submitted to Electronic Engineering Times for publication in March. Much of it deals specifically with international trade in high technology, but I believe the thoughts pertain to other areas as well. An advance copy is enclosed for your information.

Thank you again for your letter, and I hope my comments, as well as the enclosure, are helpful to you as you continue your efforts in the area of international trade.

Sincerely,

Enclosure

THE SECRETARY OF THE TREASURY
WASHINGTON

83 JAN 24 PM 4:51

January 19, 1983

Dear Chuck:

Thank you for your letter in which you suggest that the President immediately call for a domestic economic and trade summit. I also appreciated receiving a copy of the statement you made in the Senate after your return from the GATT Ministerial. Your statement on the benefits which the GATT system has brought us and the dangers of succumbing to protectionist pressures, while at the same time recognizing the need for the U.S. to pursue its international trade rights, was particularly perceptive.

We share your view that there are many issues regarding the current direction of U.S. trade policy which should be studied and perhaps reconsidered. It may indeed be useful to commission a group from the public and private sectors to study the options for long-run U.S. trade policy. We will thus keep your specific proposal in mind in the development of the Administration's trade policy strategy for the eighties.

With best wishes.

Sincerely,

Donald T. Regan

The Honorable
Charles E. Grassley
United States Senate
Washington, D.C. 20510

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83 JAN 21 PM 12:14

January 18, 1983

Honorable Charles E. Grassley
232 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Grassley;

I very much appreciate your sending me a copy of the Congressional Record which included your comments on the recent GAT Conference.

As a member of the Industry Policy & Advisory Committee on Trade and Policy Matters (IPAC), I am writing in response to your request for a reaction to your remarks. Yesterday, the Committee met in its advisory capacity with Ambassador Brock and Secretary Baldrige. The meeting was particularly timely since it preceded by a few hours the meeting with Prime Minister Nakasone and focused on our trading problem with Japan. We urged a clearer enunciation of the Administration's trade policy and hope that it will be forthcoming.

It is safe to say that there is a consensus in IPAC members that our trade problems can be placed in three main categories. First and foremost is the problem of a greatly overpriced dollar as regards the currencies of the major trading nations. This is particularly true as regards the dollar/yen differential. For an excellent discussion of that particular problem, I would refer you to the testimony of C. Fred Bergsten, given before the Subcommittee on Trade for the House Ways and Means Committee on November 30, 1982.

The second problem is one of equal access to the foreign markets. While our doors are wide open with few exceptions, countless American exporters and, in my case, shipping companies, are subject to the most blatant forms of discrimination. While in the shipping industry we are fortunate to have applicable law to take countervailing action, which we are now beginning to be forced to use, most American industry have nothing that is comparable.

Lastly, while there are significant provisions in our laws to retaliate against the various forms of foreign export subsidies and dumping, the legalistic entanglement and convoluted requirements to establish such predatory practices are so expensive and time consuming that when a judgment is eventually achieved, the injured victim is likely to be a corpse. These procedures must be made much more timely to be effective.

In his testimony, Mr. Bergsten noted that:

> "From the first quarter of 1981 through the third quarter of 1982, US net exports of goods and services in real terms declined steadily by a total of $22.5 billion. This accounted for over three quarters of the decline in total US GNP during that period. The deterioration of the trade balance was far greater than the decline in the housing or automobile industries, and has been the single most important cause of the current recession."

With eleven million American workers unemployed, measures must be taken quickly to correct our trade imbalance. I am greatly concerned with the growing desire to correct this situation by enacting new trade barriers, which in my judgment would be a tragic mistake. But, until workable solutions can be found to the problems already enunciated, I fear that this will be the inevitable result.

Sincerely,

Andrew E. Gibson

AEG:CP

STATEMENT OF HON. LLOYD M. BENTSEN

Mr. Chairman, I want to welcome Ambassador Brock to the committee again. We have the greatest confidence in him here, and I know he understands the problems we face as a former member of the Finance Committee.

The ministerial did not produce the results that all of us had hoped it would. I do not think its results were as good as Ambassador Brock wanted.

Mr. Chairman I believe trade may be the most important issue in this Congress. It is the margin of success of this economy. Exports are running about 7.5 percent of GNP, and imports are about 8 percent. Exports are nearly 27 percent of the production of all goods, and imports are over 30 percent of the production of all goods. Thus, what happens in trade affects inescapably what happens in our economy.

We need to continue to increase our exports, so as to be able to pay for the components and consumer goods that represent a high standard of living. That means Japan has to open its borders to our industrial and agricultural products. It makes our high technology industries even more important, since this is where we have much of our comparative advantage. But at the same time it means that this country has to go through major structural adjustment. Within the transportation sector, for example, jobs on waterways will continue a downward trend in this decade of about 1.5 percent per year until 1990. In just three years, employment in the automobile industry dropped almost 30 percent while imports rose almost 9.5 percent in volume; employment in the steel industry also fell almost 30 percent in that period, while imports rose almost 25 percent in volume. Of course, demand dropped in those periods as well, but that does not explain fully what has happened in those and many other industries. What has happened in international competition is forcing changes in manufacturing methods and even end products resulting in the creation of many jobs and the simultaneous elimination of many jobs. For millions of Americans now out of work or underemployed, current trade policy has meant not a better job, as it should, but no job at all.

Part of the answer to this is to structurally adjust to change the jobs we do.

Because of its impact upon structural adjustment, I think the two most important aspects of the GATT ministerial meetings are in the areas of dispute settlement and safeguards.

Disputes settlement.—Disputes settlement is important, Mr. Chairman, as so many of us have said over the years, because it is directly relevant to increasing our exports. If we cannot enforce GATT agreements, we do not necessarily get the advantage of them. Those codes must be applied by the members of GATT to actual cases, or they are just so much pious paper. What has worried me, and, frankly, the ministerial declaration has not given me any great comfort, is that GATT is dead because the disputes settlement process may not have survived the ministerial meeting.

I see the statement in the ministerial declaration to the effect "obstruction . . . shall be avoided," and if respected that is the beginning of progress; we have had a great deal of obstruction in these GATT cases. Canadian nitpicking over the terms of reference for the panel in the U.S. case against Canadian investment practices was ridiculous waste of time. The delays the Trade Representative experienced last year in cases against European Community (EC) agricultural and processed foods subsidies called into question the entire disputes settlement process.

But even if obstructionism was banished last November in Geneva, I question whether the ministers repealed the one-country veto Under this practice, any country—even a party to a dispute—can block unanimous "consensus," paralyzing GATT. Eliminating the one-country veto would have cost the United States some freedom of action, but the benefit in terms of being able to give life to the words in the GATT and the MTN codes would have been worth it. I see by Ambassador Brock's post-ministerial press conference remarks that he believes the commitment to avoid obstruction "implies that a veto shall not be used," but I wonder if we are now going to be the only country not vetoing.

Mr. Chairman, I have been working these past two years to build respect for GATT and the idea of multilateral rules. I believe the reciprocity bill that Senator Danforth and I sponsored last year and will be sponsoring again this year makes important and positive contributions to building GATT by exercising it. But the hesitant provisions on disputes settlement in the ministerial declaration make me think we are going to have to, occasionally, take unilateral actions, for example, in the area of agricultural export subsidies, to protect our national economic interest.

Safeguards: Safeguards is the other key concern in GATT, Mr. Ambassador and Mr. Chairman. Temporary import barriers may be imposed consistent with the

GATT, so long as the country imposing the barriers follows GATT standards ar · compensates countries adversely affected. Properly conceived, safeguards aid structural adjustment by providing a respite from import competition when domestic industries can reinvest, employees retrain. But in 1980, the GATT Secretariat reported that less than $2 billion of world trade was restrained by GATT-legal safeguards, whereas $22 billion was impaired by restraints outside the GATT. Those GATT-illegal restraints have no time limits on them--our industries have occasionally benefited from them, but now they are worldwide—and thus, they do not promote adjustment. GATT-illegal restraints are rotting out the foundations of GATT. We need a revision of GATT safeguard rules, but all we got was an agreement to work on one in 1983.

Without a safeguards agreement, the ministerial's much-publicized "ceasefire" on GATT-illegal restraints is meaningless. The ceasefire language itself is weak enough. But the EC's announcement immediately after the ministerial meeting that it takes this declaration to mean that the EC will use "best efforts . . . to avoid taking or maintaining" GATT-illegal measures makes it doubtful the EC takes the ceasefire obligation seriously.

Regardless of whether the United States is successful in negotiating a new agreement on safeguards under the aegis of GATT, we must turn our attention in this Congress to the problem of structural adjustment, because, inevitably, we must either go forward and compete or fall backward into uncompetitiveness.

I believe our trade laws should reflect that concern. At present, the United States implements GATT rules under section 201 of the Trade Act of 1974, which permits import relief when increasing imports seriously injure or threaten to serious injure a domestic industry. Petitions for escape clause relief have all but dried up in the past two years, a response to the administration's free trade policy. But plainly in some circumstances, such as automobiles, even the administration is willing to pressure a little export restraint out of U.S. trading partners.

In those cases, and in others where industries are fighting both the recession and imports at the same time, capital for investment in new equipment and the retraining of employees who will be permanently dismissed when the industry restructures should be part of a new escape clause policy in this country. Protection should be somewhat more readily available if it can be linked to actions that will actually promote adjustment. I look forward to working with the administration and the Committee on Policies which can promote free trade and structural adjustment at the same time. One without the other is impossible, and temporary limited protection in specific cases will, I believe, serve the interests of both.

Mr. Ambassador, I look forward to your report.

STATEMENT OF SENATOR MAX BAUCUS

Mr. Chairman, when the Second World War ended, the United States rebuilt Europe and Japan. We were a good and generous nation. We played our part. The world is better for it.

But times have changed. Europe and Japan have grown. Japan, especially, has prospered, in large measure because of our help, our security guarantees, and our open markets for their products.

It's time our allies carry more of the burden.

It's time Japan do more to defend itself. And do more to accept American products, as we accept theirs.

It's time Europe do more to defend itself. And end unfair agricultural competition through subsidized exports.

Our European friends say the subsidies have existed for thirty years. They are right. But the world has changed over thirty years. Europe has changed. The United States has changed. And policies should change with time.

If the European subsidies continue, we should respond in kind. We should compete in kind. We should provide our farmers the same assistance the Europeans provide theirs.

Regarding Japan, we have just met with the new Japanese Prime Minister, Mr. Nakasone. I think he means what he says. I think his commitment to more open markets is genuine. But we have heard words before, and words have not always led to action. this time they must, or the consequences for Japan, and the world trading system, could be dangerous.

When he was here, Prime Minister Nakasone said that even today, Americans firms have the potential to do far more business, and sell far more products, in

Japan. This would be even more true if the Japanese market-opening measures, and promises, are real.

I want to see that happen.

I would propose that the United States immediately begin an effort to penetrate Japanese markets.

I would urge the President to appoint an action group, beginning with Americans who have already done well selling in Japan. This group should prepare advice about what products could sell in Japan, and how American companies should do it.

Then they should sit down with potential exporters, and make the plans to do it.

We should push very hard. We should push for the limit, to plan to sell every product where potential exists.

Mr. Chairman, this will take a strong commitment from business. It will take a long term commitment, sophisticated marketing strategies, quality products, and great effort.

And here at home, we need to emphasize our commitment to languages and science. We need to begin long term efforts to market our goods in the entire Asian rim. I know Ambassador Mansfield believes this a growth market, and a source of competition, for the future. I agree.

We have to tap the market and meet the competition.

Specifically, I would propose a new program to initiate scholarship grants for young Americans, especially our future businessmen and women, to study in Japan, South Korea, Singapore and Taiwan. They should learn the language and study the culture.

We must prepare for the long term.

And in the short term, we should say to the Japanese: "We have heard your promises and we accept your good faith intentions." We should move strongly to put our best heads together, working with already successful businesses, to take the Japanese at their word and begin a major effort to sell.

The time has come, for both the Japanese government and American business, to put our money where our mouths have been.

STATEMENT BY SENATOR GEORGE J. MITCHELL

I believe that it is appropriate that the Finance Committee hold its first hearing of the 98th Congress on the role of the United states in the GATT. The current recession has forced us all to view the U.S. economy in an international context and to appreciate the role that trade policy can play in improving both the short-term and the long-term prospects for our economy.

Trade has become increasingly important to the U.S. economy. Imports and exports as a share of the gross national product have doubled over the last decade. Currently, one out of every six manufacturing jobs is dependent on exports, and two out of every five acres of American farmland produces for world markets. Clearly, the health of the U.S. economy is tied to a much greater extent to international trade.

The current recession has been much worse because of the poor performance of those companies that export or compete with imports. Some analysts attribute as much as 70 percent of the decline in the real CNP since the beginning of 1981 to the decline in the business activity of these companies.

In other words, if the levels of exports and imports had simply remained the same, the recession would have been much more moderate, and jobs would be more plentiful.

Maine is no exception to the importance of world trade. Because Maine is a border state, we have witnessed first-hand the divergent approaches to trade policy that the U.S. and Canadian governments have adopted. Aggressive Canadian policies and a low exchange value of the Canadian dollar have created serious problems for Maine's potato, fishing, and lumber industries. Maine's leading manufacturing sectors, the forest products, footwear, and textile industries, also have a major stake in our policies toward international trade.

The economies of Maine and the nation are closely linked to the world economy. Our foreign trade policies will greatly influence our recovery from the recession and the prospects for long-term growth in the U.S. economy.

There will be much attention devoted to a jobs program in this session of Congress. While interest in a jobs bill is based on a well-founded concern for the high level of unemployment, even a large-scale jobs program can produce only a modest increase in the number of jobs in the economy.

A more productive approach to reducing unemployment may be found in changing our international trade policies. Such policies can create long-term, well-paying jobs in the private sector. Furthermore, the budget constraints that limit the size of any public jobs initiative do not impose similar limits on our ability to generate jobs through international trade policies.

Perhaps the greatest improvement we could make would be to devise a more coordinated approach to our monetary and fiscal policies. The policies of the last two years, tight money and massive deficits, sent real interest rates to new highs. Among the many negative effects of high interest rates is that, by attracting foreign investment funds, the dollar became overvalued relative to the currencies of our major trading partners. This hurt those companies that export or that compete with imports. Seeking more moderate monetary and fiscal policies would help restore the employment losses experienced by these firms.

There are a number of other aspects of our trade policy that I believe this committee should examine. These include reforms in our import relief laws, particularly to give small businesses greater access to these laws; ways to improve U.S.-Canadian trade relations; our policies regarding trade with developing countries; and the best approach to extending the Trade Adjustment Assistance Program. I also look forward to Ambassador Brock's assessment of the recent GATT Ministerial.

The CHAIRMAN. Mr. Ambassador, we are very pleased to have you here this morning.

I think a couple of the Senators have brief opening statements. We might do that while we're waiting for Senator Bentsen and Senator Long, before you give your statement.

Senator Roth.

Senator ROTH. Thank you, Mr. Chairman.

I have a fuller statement which I would ask be included as if read.

I, too, wanted to welcome the Ambassador and congratulate him for the very able job that he is personally doing.

But I would like to say that, frankly, I regret that GATT has become a paper mouse which repeatedly has failed to halt restrictive trade practices around the world.

I think it's a matter of most serious concern that last year's GATT ministerial meeting has proved, I'd say conclusively, what we suspected for a long time, that the GATT is virtually useless when it comes to dealing with the trading problems of today.

Again, I say that despite the very aggressive action of the American delegation, led by Ambassador Brock.

But nevertheless, the GATT is worse than a paper tiger; it's a paper mouse, bogged down and dotting the "i's" and crossing the "t's" in the working documents while a trade war rages all around it.

I point out, Mr. Chairman, there are at least 10 nonfair trade practices complaints brought by the United States that are now tied up in the GATT, some for as long as 7 years.

The process is just not working. The GATT is not doing anything like an adequate job of upholding free trade. I can no longer tell my Delaware farmers, my steelworkers, and my chemical firms, "We'll take up your problem in the GATT and make sure that all nations play fair." That promise rings hollow in the light of the repeated failures of a multilateral system to knock down trade barriers.

Unfortunately, agreements negotiated during the GATT's Tokyo Round in the 1970's are not working. The Government Procurement Code, which held such promise of increased market opportunities, has fallen flat on its face. The Subsidies Code has not stamped out subsidies, and the dispute settlement mechanisms have failed to help us resolve trade confrontations.

I think it is clearly time that we begin to question the basic premises of GATT. Is it relevant today? Are the premises on which it's based relevant to the eighties and nineties?

Having said all that, I would like to reemphasize, Mr. Chairman, that I personally believe increased trade, not protectionism, should be the wave of the future. The United States must become an aggressive exporter of American-made goods and farm products. As we all know, for every billion dollars of exports, they create something like 30 to 40,000 jobs, badly needed jobs, here at home.

In closing, I would just like to point out, Mr. Chairman, that as Chairman of Government Affairs I have scheduled hearings on a new Department of Trade, the purpose of which is to create a strong single voice on trade in the executive branch, one that can champion our international rights, secure foreign market opportunities, and put trade at the top of our national priorities.

Thank you.

The CHAIRMAN. Thank you, Senator Roth.

Senator Danforth?

Senator DANFORTH. Well, Mr. Chairman, I have a statement which I would like to put in the record, and I will not read it.

I have done some reflection on what went on at Geneva. Obviously things did not go well—particularly with respect to European agricultural export subsidies.

It seems to me that, at a time of international recession and economic difficulties, it is predictable that countries all over the world would want to pull into their own shell and protect themselves, and perhaps not live up to whatever international agreements have been made. Therefore, I don't think what happened in Geneva was especially surprising.

I think what happened is that we went to Geneva and conducted our trade policy, as we have conducted it for some time, with many statements—not only our official delegation but Members of the Congress who were there about the necessity for openness in international trade, the necessity of the Europeans pulling back on their export subsidies, and so on.

And then, after much, much rhetoric, little or nothing actually happens.

I think that perhaps it is the rule that the more rhetorical trade relationships become, the less successful they become. And I think that that is especially true in the area of agriculture, where there is nothing more political, either in the United States or in Europe or Japan, or perhaps any other country, than agriculture and the relationship between a country's government and its agricultural sector.

Therefore, to go into something like the GATT ministerial, having done a lot of talking and a lot of posturing, if you will, on the question of agricultural subsidies, it seems to me that perhaps being so open and so verbal made success less likely rather than more likely.

So my concern is now, as it has been for some time, that perhaps we should consider moving from a fairly verbal approach to international trade to a more mechanical and less verbal approach. And that, of course, is the whole purpose of the reciprocity bill. It is not designed as a retreat to protectionism, but rather an effort to move trade relations among countries to something which entails a little less tearing out our hair and posturing.

So those are my comments, Mr. Chairman, and I do have a more formal statement which I would like inserted in the record.

The CHAIRMAN. Your statement will be made a part of the record. And thank you, Senator Danforth.

Senator Heinz?

Senator HEINZ. Thank you, Mr. Chairman, and I would ask unanimous consent that my entire statement be put in the record as if read.

First, I would like to welcome Mr. Brock back—Ambassador Brock—to this committee and commend him on his really outstanding work in trade policy. It's probably the toughest job that anybody could ask for, because the mission that you have undertaken, Bill, is to try to build a freer world trading system in the midst of a worldwide recession, the bottom of which may not have been fully seen yet. We hope it has, but we don't know.

In reflecting on the ministerial, with the benefit of hindsight, it couldn't have come at a worse time. We had been through a period of 4, 5, or 6 years of tremendous change in the terms of trade in the world since the Tokyo Round was completed in 1978, oil price shocks and many other changes, and much more interest in services and high tech. For the first time we faced world agricultural surpluses not just U.S. agricultural surpluses on the market, and the newly industrializing countries such as Korea, Taiwan, and others, becoming major factors in the marketplace.

I was deeply disappointed with the ministerial, as I know you were—not for the communique which you got; it was as good as could be gotten under the circumstances. But our failure to move forward implies that the rest of the world is going to move backwards into a shell of protectionism. We all know the pressures that exist.

I wonder if the GATT can recover from its current setbacks. It may be, and I have suggested this previously as early as a year ago, that we should explore the necessity of a new Bretton Woods Conference to find not only better rules for the world to play by, but a better means of enforcing the play by those rules.

This is probably an idea that's a long way away, but it is one that I hope you can pursue. It does mean that fashioning a response to growing world protectionism falls on you, the Reagan administration and on this committee, the Finance Committee.

I wholeheartedly endorse Jack Danforth's call for early passage of the reciprocity bill. It is a means of encouraging negotiations to bring about free trade or freer trade solutions to these problems than simply everybody retreating into his protectionist shell.

I would hope that the administration puts even higher priority on the reciprocity bill than on any other legislative initiative. I would like to see the CBI and the reciprocity bill move together.

We will, while we are trying to instill better discipline in the GATT, have to do one other thing, particularly here in this committee, and that is to develop a trade strategy that will deal with the very real problems of contracting or distressed industries like autos or steel, and that will also serve the needs of our growing industries, our high technology industries, some of which have been explicitly targeted some economies with more government direction.

I don't think that the U.S. reaction to world protectionism can be lethargy. I think we have to fight for a freer and fairer marketplace, and I am convinced that this is the year in which we had better look very carefully at a subject that Senator Danforth and I explored with you about two years ago called "Adjustment Policy."

I for one believe there are some approaches, with the benefit of 2 years' experience since then, that are responsible, workable, and enactable—but we are only going to be able to make progress with your help. We can meet the problems of the distressed industries, which currently, when they go to you for help or to the ITC, they receive a little bit of help, but the result is never much in the way of a comprehensive commitment or plan to set their house in order. For those industries that we look to in the future, we have no very good means yet of dealing with the juggernauts of Japan that are determined to take over computer component industries. And that, too, is an area where I'd like to see some progress.

Probably, Mr. Chairman, I might have made shorter opening remarks if I just read them, but——

[Laughter.]

The CHAIRMAN. That happens.

Senator HEINZ. That does happen.

But I do say to Ambassador Brock that this needs to be the year of trade policy. Without a good trade policy that includes an adjustment policy, we run the risk of abrogating our responsibilities to a freer world trading system.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Heinz.

Senator Bentsen?

Senator BENTSEN. Thank you very much, Mr. Chairman. I am pleased to be here this morning with Ambassador Brock. I think we are fortunate in having a man of his experience and his ability.

Several of us worked with Bill many years here on this committee, and he brings a wealth of knowledge and know-how that's important to us.

In that Ministerial meeting, which I think as much as anyone he was the initiator of it, I really question that some of our allies were much interested in such a meeting. He brought them to that meeting and helped get it started. Not as much was accomplished as I'm sure he wanted to see accomplished.

I really believe that trade is going to be the most important issue we face this year. It's a different proportion of the GNP for us than it's ever been before. It's becoming more and more a major part of the wellbeing in the economy of this country.

If these GATT codes are going to mean anything, if the dispute settlement is going to mean anything—and I think those are two of the most important parts of it—then we're going to have to see more than just a pious set of statements on the part of some of our trading partners insofar as observing it.

I have been very pleased to work with Senator Danforth on the bill that he sponsored and I have cosponsored on reciprocity, because we get into that in some length. And hopefully we will be able to have the support of the administration and the Members of the Senate and having its implementation.

But when we look at things like agriculture, and Senator Danforth commented on that, you get into the political sensitivity of each of these countries, perhaps more than any other area. And I for one have been one who has fought hard to try to break into the marketplace of Japan on beef and citrus, but I want to say just as quickly that if we won all of that, we would have won very little, because what is much more important is what we do with some of our high tech and those things that relate to high paying jobs in this country.

So whatever we can do in this forthcoming year to try to aid and buttress you, Mr. Ambassador, and your efforts, I very much want to do.

I would like to have consent, Mr. Chairman, to introduce a somewhat longer statement concerning it.

The **CHAIRMAN**. Without objection.

Senator Grassley?

Senator **GRASSLEY**. Mr. Chairman, I too attended the GATT meeting in Geneva in November. I came away very frustrated and disillusioned, wondering what the future of free trade was, but came away with a determination that under U.S. leadership it's going to survive, if there's any chance for survival at all, and thought of how our Government could once again recapture leadership in this area.

I wrote to the President suggesting that he set up an economic and foreign trade summit. I sent a letter to the President in the first part of December. The members of this committee have been notified of that. I think that the idea has been well received although not totally finalized, both from this administration and the private sector.

But I think that, in analyzing what that summit or commission might do, we have to look to its predecessors that President Kennedy had set up, and also that President Nixon had set up.

In reviewing some of these, I wondered to what extent the changes that have been suggested in the past have been adequately followed, and if the situation isn't much the same today as it was after previous systems of crisis when other groups have studied it and come up with recommendations.

I would like to read just a short part from the recommendations of the Commission on International Trade and Investment Policy, which issued a report in July 1971, and ask you to think in terms of whether or not this is 1971 or 1983 that this report could be referring to.

I quote:

> There are unmistakable signs in the United States of developing crisis of confidence in the system. The crisis is reflected in mounting pressures in the United States for import restrictions as foreign-made textiles, clothing, shoes, steel, electronics products, and automobiles penetrate our markets, and the growing demands for retaliation against foreign measures which place American agricultural and other products at a disadvantage in markets abroad; a growing concern in this country that the United States has not received full value for the tariff concessions made over the years, because foreign countries have found other ways besides tariffs of impeding our access to their markets; labor's contention that our corporations, through their operations abroad, are exporting jobs by giving away their competitive advantage that the United States should derive from its superior technology and efficiency; a sense of frustration with our persistent balance-of-payments deficit; and a feeling that other countries are not doing their fair share of making the international monetary system work; an increasing concern that our foreign economic policy of our Government has given insufficient weight to our economic interests and too much weight to our foreign policy relations, that it is still influenced by a Marshall plan psychology appropriate to an earlier period.

And then, continuing to quote:

> Overhanging these doubts and frustrations is the belief that we have lacked the sense of priorities and the organization to deal effectively with our foreign economic relations; that responsibilities in the Executive Branch have been unclear and authority fragmented; that Congress and the private sector have not been adequately brought into the policymaking process; that effective machinery has not existed for integrating the interrelated parts into a coherent foreign economic policy that would serve our national objectives.

I would submit, Mr. Chairman, that the situation, economic environment on the international scene, the concern over free trade and whether or not it is going to exist, isn't any different in 1983 than it was in 1971. I would hope, out of a repeat of such a study that might evolve from my suggestions, we would have public policy follow the recommendations. If they had been followed in 1971, I'm sure that our situation wouldn't be the same as it is in 1983.

I ask that the balance of my statement be incorporated in the record.

The CHAIRMAN. It will be incorporated. Thank you, Senator Grassley.

Senator Mitchell.

Senator MITCHELL. Thank you, Mr. Chairman.

I have a prepared statement that will be placed in the record, and I will just make a few brief remarks.

Mr. Ambassador, your presence is always, of course, welcome and always important. I think on no occasion has your presence been more important than it is today, for one overriding reason, and that is the high rate of unemployment in this country. Every action taken by this Congress must take that factor into account, and I think no area is more directly relevant than the trade area in which you are involved.

It seems to me that we have two objectives: One is to protect American jobs against unfair foreign competition; the other is to exploit the opportunity for the creation of American jobs devoted to the export market. While at first glance the two may appear to be inconsistent, I don't think they are, and I want to emphasize that I think the former is critical at this time of high unemployment. It has become almost fashionable to decry as "protectionist" virtually any action intended to preserve and protect American jobs, but I would point out that protecting American jobs against unfair foreign competition is not, at least in my view, protectionism. Protectionism implies an unwillingness and an inability to compete regardless of the circumstances. I think competing on fair and equal terms is the very opposite of that.

I think that you face a very difficult task in leading our Government toward a policy which balances those two objectives.

It is of absolutely critical importance now, because of course the high rate of unemployment leads members of the American public to believe that there is some magic answer in protectionist policies. It seems to me important to diffuse that feeling by the Government's demonstrating its ability to discriminate and discern the differences that I have just suggested.

We, of course, want very badly to work with you and participate in that effort because it is of such critical importance to us in our efforts to reduce the unemployment rate and to bring an end to the massive human tragedy that is occurring in this country today.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Mitchell.

Senator Bradley.

We are going to get to you, Mr. Brock. Don't leave.

Senator BRADLEY. Thank you very much, Mr. Chairman.

Let me reiterate what other Senators have said, in that I think you did a good job at the GATT Ministerial in very difficult circumstances.

I say that, notwithstanding that we didn't really get anything on trade-distorting investment practices; I say that, notwithstanding that we essentially dropped our initiative on high technology; and I say that because I know that you feel, after a few years in this position as the pointman, and that you are constantly dealing with allies around the world and their reactions to our domestic economic policy, and I think you, probably better than any member of the administration, appreciate the international dimensions of our domestic economic policy, the fact that in the last several years we have seen interest rates skyrocket, leading to a dramatic reversal in terms of trade because of the value of our currency appreciating dramatically against everything else and making our goods more expensive and their goods cheaper here, and you more than anyone else have heard our allies plead with us to begin to change that policy. The result of failing to change that policy is clearly a trade war of impressive proportions, or at least the potential for a trade war, which ultimately would help no one.

So it is with these comments, and in a sense expecting you to be the one who would understand this issue better than any, that I heard a press conference called in Europe a week ago by the Undersecretary of Treasury Beryle Sprinkle, the high priest of monetarism in this administration.

At this press conference he said that he felt it was very important that we have a joint economic expansion of every country in the Western world to avert a very serious deflation, a depression.

Well, I'm sure the irony was not lost on you, as someone who has had to cope with his policies being enacted—very, very high interest rates that were supposedly the only way to deal with the problem of inflation. And I would hope that you would be very clear in saying for one Senator in the councils up there that I found that performance outrageous, I found it in some sense hypocritical, and I really think that it ignores not only the work that you have done but the suffering that is out there today because of people who are out of work because of that policy, and I would hope that the administration in these next 2 years would essentially bury that monetarist horse and get on with the business of building a strong American trade initiative, but also recognizing that domestic economic policy is inextricably related to our trade position.

The CHAIRMAN. Thank you, Senator Bradley.

Ambassador Brock, I think that's just an indication from the members here this morning. Their very good statements indicate just what concern we have in this committee with our general trade policies.

I have a statement which I would like to make part of the record. I will just take 1 minute, because I think most everything I have in that statement has been touched upon.

I, too would welcome you back for a discussion before the Senate Finance Committee. I know that you are not going to be able to touch on some of the areas that may be covered in the State of the Union message, and I know the committee members will have mercy on you in this regard. I hope they will have mercy on you in this regard; but if they don't, you've been here before. [Laughter.]

Some of us who attended the GATT—Senator Grassley, Senator Danforth, myself, and others—were disturbed by what we saw. Despite your extraordinary efforts, the results suggest to me as they suggest to others who were there and were not able to be there that the viability of the GATT may have been called into serious question.

Our desire to meet headon the issues of subsidies, safeguards, services, performance requirements, counterfeiting, and others, was met with institutional paralysis.

So we hope to begin to explore today, whether politically or procedurally, if the GATT, with over a hundred diverse members, is capable of meeting the challenges of today and tomorrow. Are there preferable alternatives to the GATT that will foster trade by achieving overall reciprocity and nondiscrimination? I hope you can shed some light on that.

We cannot lose sight of the fact that some are predicting a $75 billion merchandise trade deficit that also would reverse by a large amount our historic surplus of current account. We also understand the state of the world economy; we know there are problems in every country.

I share the view expressed by Senator Danforth: perhaps sometimes rhetoric is not particularly helpful; results would be more appreciated by those in this country and others.

But I think we need to find out what is our approach in this regard? Are we addressing the debt issues that now exceed $600 billion, with a number of countries near default? That's a worldwide figure.

It seems to me that we have a lot of responsibility in this committee to you and to the people we represent and to the world, and we are going to do our best to try to address it.

I really believe that the policies and practices of other nations can defeat our efforts to be fairly competitive. None of us are suggesting, at least as far as I know, some protectionist thrust, even though we hear much about it from time to time from different people. We are trying to figure out some way to insure that nondiscrimination and reciprocal benefits continue to underly the implementation of our trade agreements.

I for one believe the recent government-assisted sale of wheat flour to Egypt was a welcome sight, that the administration will defend our export markets against subsidized competition.

I was also pleased by the measures announced by the Prime Minister of Japan when he was here last week, even though I am not so certain they are as significant as may have been indicated; but there is an imbalance that cannot be tolerated much longer with Japan.

So I will say, as others have indicated, that those who have direct responsibility in this committee for trade policy and activities have a full plate.

I would also underscore, although I'm not certain whether there will be any change, whether there will be a new Department of Trade or some changes made as suggested by Senator Roth—I share his concern and hope that may happen—but in the meantime, the purpose of this hearing was to keep a promise we made in Geneva, at a press conference with myself and Senator Danforth and Senator Grassley, that we would address this issue at the earliest possible time. And since this is the first day of the Congress, the 98th Congress, it seemed appropriate to me that we do it at the outset.

We are very grateful for your willingness to appear. We all, of course, have nothing but the highest regard and respect for your abilities. We want to be helpful. And if there is something we can say, or maybe even not say—that's hard for us—we'll try.

On that note, I will again welcome you to the committee. You may proceed in any way you wish.

STATEMENT OF THE HON. WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Ambassador BROCK. Thank you, Mr. Chairman.

I think you know how much I enjoy these sessions and how much I appreciate them, because I really not only have an affection and respect for the members of this committee, but I am very sensitive to the fact that my office is unique at the Cabinet level in being jointly responsible to the President and to the Congress under the Constitution, and it is important to me that we have this kind of conversation regularly and that I have the benefit of your ideas and your concern and your advice.

This is not a one-man process; we simply have to be able to work together in encouraging a policy that deals with the problem that Senator Mitchell mentioned most specifically, and that is the creation of jobs, because that fundamentally is what we are all about. If we don't look at in that context, then we miss the basic purpose of any economic policy, be it trade or domestic.

That's why this particular session is of importance and one for which I am very grateful.

I would like to do something a little different this morning before I talk about the Ministerial.

The CHAIRMAN. Mr. Ambassador, I wonder if you might just hold for a second. I just want to welcome our newest member of this committee who has just come in, Senator Pryor of Arkansas.

We're glad to have you with us.

Senator PRYOR. I'm sorry I'm late for the first meeting, Mr. Chairman.

The CHAIRMAN. You haven't missed a great deal up to this point. [Laughter.]

Senator PRYOR. Thank you.

Ambassador BROCK. I thought there were some pretty good comments made.

Nice to see you, Senator. You have joined a good group.

Senator PRYOR. Thank you.

Ambassador BROCK. I would like to take just a few minutes to talk about the larger setting in which the Ministerial was held, and what the facts are relating to U.S. competitive circumstance.

The reality is that 35 years in pursuit of freer trade policies had made us stronger economically, and those policies are essential to our continued growth and strength.

In recent years four out of five of the new U.S. jobs created in manufacturing have been created in international trade. One out of every three acres planted by American farmers is producing crops for export. Two trillion dollars—trillion dollars—of goods and services currently are being traded internationally, and the potential for growth is unlimited.

We are, with all of our self-criticism, the most creative, productive, and competitive people in the world, and we are the best prepared to take advantage of these opportunities.

Unfortunately, sometimes I think the trade policy has become the scapegoat for economic ills, not just in the United States but worldwide.

In this Nation, as in others, there are those who propose a "fortress" mentality—the adoption of policies that in effect pull up the drawbridge, insulating our market from world competition, and protecting our industries from innovative change. This is a self-defeating course of action. Nations which protect their economies from adjustment today will pay by a decline in productivity tomorrow. Inevitably this means less economic growth, fewer jobs, a lower standard of living, and more government intervention to divide up an ever smaller economic pie.

Despite the outcry for protectionism in this country, our economic and trade data reveal the United States has performed as well or better than our major industrial trading partners.

Nearly every economy in the world currently is plagued by recession, but the United States has been hurt far less than most, despite the pain that we suffered. And there is a firm consensus among economists that we will be the first and strongest economy to emerge from the recession during the course of the next year.

Unemployment is far too high in the United States today, and we are working diligently to reduce it. But our unemployment is far less than that of most of our major trading partners; moreover, unlike Western Europe and Japan where employment has grown very little, the United States has created millions of new jobs for those entering the labor force during the last decade—as a matter of fact, about 17 million new jobs in the seventies.

For a period of about 10 years the U.S. work force has successfully absorbed the crest of the baby boom, a substantial flow of refugees and immigrants, and at the same time moved from having one of the lowest proportions of women in the work force to having the highest proportion in the world.

Part of the real and continuing strength of the U.S. economy has been veiled by shifts in exchange rates, Senator Bradley, during the last decade. U.S. exports have grown rapidly during periods when the dollar was depreciating, 1971-74 and 1977-80, and exports actually declined while the dollar appreciated between 1974 and 1977.

However, declining U.S. interest rates and signs of a stronger world economy are beginning to be felt. The dollar has declined substantially against the currencies of all our key industrial trading partners except Great Britain in the past 3 months, auguring well for renewed export competitiveness.

The sensitive debt situation of many of the developing countries also has had a negative effect on U.S trade.

Such major LDC's as Mexico, Brazil, Argentina, as well as other developing debtor countries, will need to continue to increase their net export earnings in order to correct their growing balance-of-payment problems.

However, even during times of fluctuating exchange rates, an uneven dollar abroad, and the LDC debt problem, the United States has managed to maintain its share of the world trade and total world exports. In fact, our share of the world's exports has actually grown from 11.9 percent in 1977 to 13.3 percent as of last summer.

Moreover, in these last 12 years from 1970 through 1981, the U.S. surplus exceeded $60 billion, more than that of any other industrial economy.

Finally, while some were being critical of our own policies for not bringing on economic recovery quickly enough, the rest of the world held a different perspective.

For example, in 1980 the U.S. rate of inflation was 13.5 percent. Today, inflation is at 3.9 percent. In that same period, however, the rate of inflation in France has gone from 13.5 to only 10.8; in Italy from 21.2 to 16.3; in Great Britain from 18 to 8; and in Brazil from 183 percent to 197 percent, annual. Incredible!

In 1981 the U.S. prime interest rate was running at an average rate of 19 percent. Today it is 11 percent and declining. We already see signs of the beginnings of a recovery in the real estate and building markets here.

At the same time, interest rates around the world also have declined, but not as much as ours, and they still exceed the U.S. levels. France is at 15 percent; Italy at 20; Britain at 11.

Simply stated, in spite of our economic problems, the United States entered the Ministerial meeting in November 1982 in a stronger position economically than our fellow trading partners.

This was the atmosphere in which we approached the GATT Ministerial meeting. The worldwide recession, unprecedented unemployment rates and debt service problems led to a reluctance on the part of our trading partners to move toward freer trade policies in Geneva. We realized that we would have to take the lead in recognizing the problems of the current trading system and the challenges that must be faced in the years ahead. And had we not shown ambitious leadership, there would have been no prospect for success at all.

As it turned out, there was progress in Geneva, not as much as we had hoped, but progress. At the outset of the meeting we had two objectives:

First, to restore a sense of political will, momentum, and commitment to the international trading system itself;

Second, to link the reaffirmation of political will to procedures that would back up the promises.

We moved closer to fulfilling both objectives, which was, in the face of the economic circumstances, a significant step. However, given the economic atmosphere perhaps our most important achievement was in keeping the GATT system together and moving in a positive direction.

In this regard, one of the most important achievements of the Ministerial was the political commitment made by the contracting parties to "refrain from taking or maintaining any measures inconsistent with the GATT." This refers to measures the contracting parties already have in place, and draws special attention to the fact that during the past few years many have enacted protectionist measures which violate the GATT.

In addition, we made progress in the areas of safeguards, dispute settlement, and even in agriculture. We drew attention to—without achieving as much results as we had hoped—those problems that have been mentioned here: North-South relations, high technology, trade-related investments, and services.

The next step will be to implement the decisions made by the Ministers in Geneva. Tomorrow at the meeting of the GATT Council, the United States will again press for development of an institutional framework for the implementation of the Ministerial work program.

As we push ahead, urging our trading partners to do more to strengthen the GATT and to encourage freer trade policies, we expect to meet reluctance and some opposition. There may be those who, in the face of difficult decisions advocate retrenchment and retreat.

Similarly, and perhaps ironically, we face the same opponents here at home who advocate less free trade, not more, those Cassandras who wish to put off the tough decisions of adjustment which face all major trading nations and desire instead to return to a world of protective barriers.

As we did in Geneva, we will continue to vigorously oppose protectionism at home that will damage our productive future and distort world and American adjustment prospects.

I do want, at the same time, to reiterate the fact that we will not sit on our hands if other governments act in such a way as to injure U.S. workers and industries. Just as we do not intend to shift our unemployment to other countries, we do not intend to allow other countries to shift their unemployment to us. We will act to defend and advance the legitimate economic interests of the United States in the international trading system.

In short, we intend to proceed along the three paths which we outlined in our trade policy paper submitted to you in July 1981:

One, we will continue to seek effective and persistent negotiations with other countries to remove trade barriers and unfair trade practices abroad which burden U.S. exports.

Two, we will continue to insist on effective enforcement and, where necessary, strengthening of U.S. trade laws to help insure that U.S. industries compete on a fair and equal basis in international markets.

Three, we will continue to pursue economic policies at home that will allow the U.S. economy to adjust to wealth-creating innovation.

Our success will be measured not in laws or lofty policy statements, but in jobs, growth, and real income. These are not a set of promises; they are a set of challenges.

At the same time, the United States will continue its vigorous efforts to strengthen the international trading system. Our leadership is essential. We must stop the drift toward short-term, inward-looking policies which risk a repeat of the disasters of the thirties when protectionism and trade wars eventually led to unprecedented suffering.

Protectionism cannot serve to settle disputes. It can no longer be the concern of great powers alone; for retaliation, spread by waters and winds and fear, could well engulf the great and the small, the rich and the poor, the committed and the uncommitted.

We must put an end to the spread of worldwide protectionism, or protectionism will put an end to our economies. We either trade more and create more employment, or we trade less and create unemployment. Our choice is clear.

Only through the expansion of trade can we hope to create more long-term job opportunities in growing, flexible industries and sectors. Our current employment problems demand that we compete successfully in the rest of the world. Achievement of this goal will not be a victory for one party or one side but for the Nation.

I look forward to continuing our work toward this goal with the new Congress, and in developing proposals to address the multitude of issues we will face this year.

[The prepared statement of Ambassador William E. Brock follows:]

STATEMENT
BY
AMBASSADOR WILLIAM E. BROCK
ON AN ASSESSMENT OF THE GATT MINISTERIAL MEETING
BEFORE THE
SENATE FINANCE COMMITTEE

January 25, 1983

The issue on the minds of all Americans, of all Members of Congress, is clearly U.S. employment. No economic subject considered during the 98th Congress will be discussed without the mention of jobs.

Trade represents not the exception, but the opportunity. A steady increase in the volume of exports and imports is central to the creation of new, more stable employment, higher real income, and a healthy economy.

Thus, no discussion of the results of the GATT Ministerial Meeting in Geneva would be adequate without addressing some of the most pressing questions facing the American people and Congress today. To fairly evaluate the United States' role in the GATT Ministerial meeting, we must first put our economic considerations in perspective.

The reality is that thirty-five years of world leadership in persuit of freer trade policies have made us stronger economically; they are essential to our continued growth and strength.

In recent years 4 out of 5 of the new U.S. jobs in manufacturing have been created by international trade. One out of every three acres planted by American farmers is producing crops for export. Two trillion dollars of goods and services currently are being traded internationally and the potential for growth is unlimited.

We are the most creative, productive, and competitive people in the world and are the best prepared to take advantage of these opportunities.

However, like it or not, trade policy has become the scapegoat for economic ills, not just in the United States but worldwide.

In this nation, as in others, there are those who propose a "fortress" mentality - the adoption of policies that, in effect, pull up the drawbridge, insulating our market from world competition, and protecting our industries from innovative change. This is a self-defeating course of action. Nations which protect their economies from adjustment today will pay by a decline in productivity tomorrow. Inevitably this means less economic growth, fewer jobs, a lower standard of living and more government intervention to divide up an even smaller economic pie.

Despite the outcry for protectionism in this country, our economic and trade data reveal that the United States has generally performed as well as our major industrial trading partners.

Nearly every economy in the world currently is plagued by recession, but the United States has been hurt far less than most. And, there is a firm consensus among economists that we will be the first and strongest economy to emerge from the recession during the course of the next year.

Unemployment is far too high in the United States today and we are working dilligently to reduce it. But our unemployment is far less than that of most of our major trading partners. Moreover, unlike Western Europe and Japan, where employment has grown very little, the United States has created millions of new jobs for those entering the labor force during the last decade. In a period of about ten years the United States workforce has successfully absorbed the crest of the baby boom, a substantial flow of refugees and immigrants, and at the same time moved from having one of the lowest proportions of women in the work force to having the highest proportion in the world.

Part of the real and continuing strength of the U.S. economy has been veiled by shifts in exchange rates during the past decade. U.S. exports have grown rapidly during periods when the dollar was depreciating (1971-74 and 1977-1980) and exports actually declined while the dollar appreciated between 1974 and 1977. The upswing in the value of the dollar beginning in late 1980 again has adversely affected U.S. exports.

Another part of our problem has been that in an uncertain world the United States is a relative source of strength and a sanctuary for foreign funds. This has pushed up the value of the dollar even further. However, declining U.S. interest rates and signs of a stronger world economy are beginning to be felt. The dollar has declined substantially against the currencies of all our key industrial trading partners except Great Britain in the past three months, augering well for renewed US export competitiveness.

The sensitive debt situation of many of the developing countries also has had a negative effect on US trade. In cooperation with the IMF and in parallel with the private banking system, the United States and other industrial countries are working to help major debtor countries adjust to the realities of living within their own means.

To accomplish this adjustment such major LDCs as Mexico, Brazil, Argentina, as well as other developing debtor countries, have embarked on adjustment programs of great austerity. They will need to continue to increase their net export earnings in order to correct their growing balance of payment problems.

However, even during times of fluctuating exchange rates, an uneven dollar abroad, and the LDC debt problem, the United States has managed to maintain its share of the total world trade and total world exports. In fact, our share of the world's exports has actually grown from 11.9 percent in 1977 to 13.3 percent last summer.

Looking at manfactured items alone, we see that the volume of US exports climbed almost as rapidly as that of Japan and faster than that of the E.C. countries during the 1970s. The US share of OECD exports of manufactures was 2 percentage points higher in 1980 than in 1970.

From 1970 through 1981 the United States was in a strong current account position and our overall trade performance was impressive. In that period the United States earned far more than it paid out in its current international transactions (goods, services, return on capital invested abroad, and private remittances).

For these twelve years our cumulative surplus exceeded $60 billion, more than that of any other industrial country.

Much is made of Japan's so-called competitive superiority to the United States in trade. However, in reality, Japan, performed only slightly better than the United States, and in that performance they are alone among our competitors in the industrialized countries.

More importantly, Japan's penetration of world markets is highly concentrated in a few commodity categories. Five categories -- road motor vehicles, steel, consumer electronics, industrial machinery, and ships -- make up more than half of its exports. This concentration contributes to, but also limits the scope of Japan's success.

Finally, while some were being critical of our own policies for not bringing on economic recovery quickly enough, the rest of the world held a different perspective.

For example, in 1980, the U.S. rate of inflation was 13.5% Today, inflation in this country is at 4.6%. In that same period however, the rate of inflation in France has gone from 13.5% to 10.8%; in Italy from 21.2% to 16.3%; in Great Britian from 18.0% to 8.0%; in Brazil from 183% to 197%.

Or take interest rates as another example.

In 1981, the U.S. prime interest rate was running at an average of 19%. Today it is 11% and still declining. We have already seen signs of the beginnings of a recovery in the real estate and building markets here.

At the same time, interest rates around the world also have declined but for many countries they still exceed U.S. levels. France is at 15%; Italy 20%; Britain is at 11%.

Simply stated, in spite of our economic problems, the United States entered the GATT Ministerial Meeting in November 1982 in a stronger position economically than our fellow trading partners.

This was the atmosphere in which we approached the GATT Ministerial meeting. The worldwide recession, unprecedented unemployment rates and debt service problems led to a reluctance on the part of our trading partners to move toward freer trade policies in Geneva. We realized that we would have to take the lead in recognizing the problems of the current trading system and the challenges that must be faced in the years ahead. Had we not showed this type of ambitious leadership, there would have been no prospect for success.

As it turned out, there was progress in Geneva, but not as much as the United States had originally hoped.

At the outset of the meeting the United States had two objectives:

- First, to restore a sense of political will, momentum and commitment to the international trading system itself;
- Second, to link the reaffirmation of political will to procedures that would back up the promises.

We moved closer toward fulfilling both objectives, which was a significant step. However, given the economic atmosphere in which the Ministerial took place, perhaps our most important achievement was in keeping the GATT system together and moving in a positive direction.

A brief summation of the results of the Meeting are as follows:

Political Commitment

The Contracting Parties made a commitment at the Ministerial to abide by their GATT obligations and to "refrain from taking or maintaining any measures inconsistent with the GATT." The political commitment further stipulates that countries will make determined efforts to "resist protectionist pressures in the formulation and implementation of national policy and in proposing legislation."

The most ambitious part of this political statement is the reference to refrain from taking and "maintaining" any measures inconsistent with GATT. This refers to measures the Contracting Parties already have in place and draws special attention to the fact that during the past few years many of the Contracting Parties have enacted protectionist measures which violate the GATT.

This progressive language must be backed up with substantive action during the coming months.

Safeguards

A key issue that was addressed by the ministers in Geneva was the development of a safeguard code. Most safeguard actions currently taken to protect domestic industry from imports, are pursued outside the framework of any GATT discipline.

Although the United States had hoped that countries could agree on a code at the Ministerial, that was not possible. Certain countries were unwilling to accept new international rules that would limit their freedom of action when taking restrictive measures.

However, the Ministers recognized the need for a comprehensive safeguard code as an essential underpinning to the political commitment to halt protectionism. Therefore, they decided that negotiations should begin immediately to compiled an interim report by July and to complete a final agreement by the fall of 1983.

The United States had hoped for more, but we believe this is a positive step that sets the stage for intensive negotations over the next year on this fundamental issue.

Dispute Settlement

A good deal of progress was made in tightening the GATT dispute settlement procedures.

Concern about the present dispute settlement process was twofold. First, when political will is lacking, the system is subject to lengthy stalling. Second, even when a final report is made, that decision can be blocked by either of the affected parties by simply refusing to accept it.

The Ministers in Geneva shortened the time constraints on the dispute settlement process and resolved that no single GATT Contracting Party should block GATT Council decisions related to disputes. This wording is stronger than any previous GATT language. The real test, however, will come during the next few months in the application of this commitment. If successful, we will establish the precedent that no single country can veto the dispute settlement process.

Agriculture

Agricultural trade problems were a major topic of discussion by the Ministers, particularly between the United States and the European Community. The longest, most contentious, debate at the Ministerial centered on the language stated that GATT Contracting Parties should bring export competition in agriculture under greater discipline.

The Contracting Parties finally agreed on language saying that there would be an examination of the provisions in GATT relevant to agriculture, as well as the operation of the General Agreement "as regards subsidies affecting agriculture, especially export subsidies, with a view to examining its effectiveness... in promoting the objectives of the General Agreement and avoiding subsidization seriously prejudicial to the trade or interests of Contracting Parties." This represents a real step forward.

in the work program set out in the Ministerial Declaration, the Contracting Parties agree to "bring agriculture more fully into the multilateral trading system by improving the effectiveness of the GATT rules...and to seek to improve terms of access to markets and to bring export competition under greater discipline."

Furthermore, an agreement was reached to set up a group to examine ways to deal with agricultural trade problems and to set a two-year time limit for completion of the work. Progress by this group would help us avoid serious confrontations in the future.

High level meetings between the United States and the EC already have begun. These have improved the atmosphere somewhat and have set the stage for intensive talks over the next few months.

FUTURE ISSUES:

The GATT must constantly evolve in order to stay relevant. As such, it directs attention to emerging issues and problems.

If these issues are not addressed, they will prove far more difficult to manage in the future. Despite others' skepticism the United States made the ambitious proposal that the GATT initiate studies to examine trade in services, North-South trade problems, trade in high technology products, and trade-related investment issues.

Services

One of the most glaring gaps in our international trade rules is in the service sectors. As a first step, we were successful in obtaining an agreement in services that calls for national studies of the issues affecting these sectors, an exchange of information in the GATT among interested countries, and a decision in 1984 by the Contracting Parties as to whether further multilateral action is appropriate.

We expect to present our comprehensive national study next Fall. In the meantime, we will begin a series of informal talks with interested countries in the GATT on the many issues facing our service sectors.

We now have the prospect of drawing attention to the services issues in the GATT, where the basic principles of trade liberalization and dispute settlement procedures to back them up make it potentially the best international forum for understanding in this area. It is a beginning.

North-South Trade Relations

During the past decade, the developing countries have grown in importance to us as markets, as competitors, and as suppliers of needed goods and services. Their impressive growth and diversification of trade occurred in spite of significant trade barriers in nearly all developing countries. The GATT must be prepared to respond to the changes in global trading patterns if it is to continue to receive the support and adherence of trading nations.

For this reason, the United States proposed that the GATT launch a process which would encourage a mutual opening of developed and developing country markets to foster economic growth.

While we did not obtain a commitment by the Ministers to agree to a North-South round of trade negotiations, the GATT did instruct the Committee on Trade and Development to carry out an examination of the prospects for increasing trade between developed and developing countries. However, it is clear that the U.S. must set its own course on this issue and pursue discussions with interested nations.

High Technology

There was agreement from all parties to study trade in high technology products. However, on the final night of the negotiations, one country exercised its blocking right and the language on high technology was struck from the formal Ministerial document. It was then added to the Chairman's oral statement, and this issue will be on the agenda of the GATT Council meeting tomorrow.

Investment

The United States faced strong opposition by the LDCs to even a discussion of trade-related investment issues. In large measure, this was because many of these countries already have local content and export requirements. While their opposition is understandable, it is also regrettable. These types of actions have a negative and distorting effect on global trade.

The United States will move to protect its legitimate interests in this area. We will pursue our legitimate complaints, perhaps in a more unilateral and confrontational manner than would have occurred if the GATT Ministerial had made more progress in this area.

The United States also will continue to pursue this issue in the GATT and in other multilateral fora. For example, the United States has pursued its complaint against Canada's Foreign Investment Review Agency through GATT's dispute settlement mechanism. The OECD is also considering possible multilateral solutions to trade-related investment problems.

SUMMARY:

The next step will be to implement the decisions made by the Ministers in Geneva. Tomorrow at the meeting of the GATT Council, the United States will again press for development of an institutional framework for the implementation of the Ministerial Work Program.

As we push ahead, urging our trading partners to do more to strengthen the GATT and to encourage freer trade policies, we expect to meet reluctance and some opposition. There may be those, who in the face of difficult decisions advocate retrenchment and retreat.

Nonetheless, the United States has been successful in the trade field because of its bipartisan adherence to free trade principles. Our leadership and our record are what held the GATT Ministerial together.

Similarly, and perhaps ironically, we face the same opponents here at home who advocate less free trade, not more. These cassandras wish to put off the tough decisions of adjustment which face all major trading nations and desire instead to return to a world of protective barriers.

As we did in Geneva, we will continue to vigorously oppose protectionism at home that would damage our productive future and distort world and American adjustment prospects.

At the same time, let me reiterate the fact that we will not sit on our hands if other governments act in such a way as to injure U.S. workers and industries. Just as we do not intend to shift our unemployment to other countries, we do not intend to allow other countries to shift their unemployment to us. We will act to defend and advance the legitimate economic interests of the United States in the international trading system.

In short, we intend to proceed along the three paths, which we outlined in our Trade Policy Paper from July 1981:

1. We will continue to seek effective and persistent negotiations with other countries to remove trade barriers and unfair trade practices abroad which burden U.S. exports.

2. We will continue to insist on effective enforcement and, where necessary, strengthening of U.S. trade laws to help ensure that U.S. industries compete on a fair and equal basis in international markets.

3. We will continue to pursue economic policies at home that will allow the U.S. economy to adjust to wealth-creating innovation.

Nonetheless, our success will be measured not in laws or lofty policy statements - but in jobs, growth and real income. These are not a set of promises; these are a set of challenges.

At the same time, the United States will continue its vigorous efforts to strengthen the international trading system. Our leadership is essential. We must stop the drift toward short-term, inward looking policies which risk a repeat of the disasters of the 1930s, when protectionism and trade wars eventually led to real wars and unprecedented suffering.

Protectionism can not serve to settle disputes. It can no longer be the concern of the great powers alone. For retaliation, spread by waters and winds and fear, could well engulf the great and the small, the rich and the poor, the committed and the uncommitted.

We must put an end to the spread of worldwide protectionism, or protectionism will put an end to our economies. We either trade more and create more employment, or we trade less and create more unemployment. Our choice is clear.

Only through the expansion of trade can we hope to create more long-term job opportunities in growing, flexible industries and sectors. Our current employment problems demand that we compete successfully in the rest of the world. Achievement of this goal will not be a victory for one party or one side, it will be a victory for our nation.

I look forward to continuing our work toward this goal with the new Congress and in developing meaningful proposals to address the multitude of issues we will face this year.

Ambassador **Brock**. Mr. Chairman, I would be delighted to go to the specifics of whatever questions you have.

Senator **Danforth**. Thank you, Mr. Ambassador.

Senator **Grassley**.

Senator **Grassley**. Ambassador Brock, is it true that the White House has approved a proposal to establish a Williams-type commission to study the issues of trade, the sort of summit that I suggested? I know you were also interested in it.

Ambassador **Brock**. Senator, I have expressed a good deal of interest in that approach, and we have given it a lot of attention and a lot of discussion. No final decision has been reached, or at least announced, at this time.

I do hope that some such process could be used to draw on the best minds we can find anywhere, to look at the global situation, as you have suggested, and address these problems. I think it makes a lot of sense.

Senator **Grassley**. What's the latest on our bilateral talks with the European community on agricultural trade? They took place in Brussels in December, then there were some talks recently in Washington the last couple of weeks.

Ambassador **Brock**. I am optimistic, more so than I have been in the last couple of years.

I respect greatly Senator Danforth's comments that perhaps rhetoric can create problems, but in this particular area I think the fact that the Members of the Congress express themselves with great clarity in Geneva and elsewhere on this subject helped to create an understanding in Europe of the magnitude of concern felt here in the Congress and among the American people.

We followed the GATT meeting, as you recall, with five Cabinet members meeting with the European Community in December in Brussels, and a very constructive conversation, which resulted in the formation of technical groups to pursue the individual items of dispute through the January-to-March period.

We have put pretty much of a 90-day deadline on ourselves to make some progress. The first talks were held just about 2 weeks ago now at the technical level. The U.S. side was led by my deputy, Dave McDonald, and by Under Secretary Lane of the Department of Agriculture. I think both feel that the talks moved in a very positive direction. We did not seek a specific answer to any single problem yet—it's too early—but I think we did get rid of the theology of the charge and countercharge.

I started the conversation in Brussels by saying "It isn't a question of who's right or wrong, or legal or illegal. We have been damaged, and we expect to see some change. We have to see some change."

I think both sides have entered into the conversation very constructively, very honestly seeking a change, and I have a lot of hope that some progress can be made. It's a tough issue, but I think we've gotten on at least the path that can lead to a solution, and in a reasonable period of time. The next 2 or 3 months will tell the story.

Senator **Grassley**. Thank you, Mr. Chairman.

Senator **Danforth**. Senator Roth?

Senator ROTH. Ambassador Brock, in my opening remarks I asked a question which was repeated by the chairman of this committee: Is GATT really relevant to today's situation?

Now I happen to be one, as I indicated, strongly believing that we have to move the direction of free or fair trade.

There are a number of areas where it seems to me what's happening in GATT does not seem relevant to today's situation.

First of all let me point out, back in the early 1970's when you were a member of this committee, prior to the Tokyo negotiations, there was a great deal of discussion that we had to address the problems of both agriculture and VAT, the value added taxes, neither of which were really basically dealt with in the Tokyo Round.

It seems to me those problems continue to be as critically important today as they were then.

In the case of agriculture, that's one area where our productivity cannot be challenged; but because of the practices, the cap, the practices of Western Europe, and the limitations or quotas in Japan, we are not able to really pierce them to the extent that our productivity entitles it.

I guess what concerns me, are we really dealing over the many years—I am not talking about the last 2 years—are we really dealing with some of the tough problems? Is the GATT really today, at least in its present form, pertinent to the 1980's and the 1990's?

For example, let me just give you a couple more illustrations: Increasingly we see government-owned corporations throughout the world becoming a means of competition.

GATT has been essentially based, it seems to me, on the idea of a market economy; yet much of the world doesn't have a market economy, even many of our friends and allies. How do we address this problem of government-owned subsidiaries?

Or, increasingly we see in Asia, not only Japan but other countries, where government funds are being used as a means of piercing a particular market.

You go to the question of most favored nation. I think probably ours is the most liberal approach in these areas.

Are these questions that either we here in the Congress or we as a government should be addressing and trying to find some new answers?

I wonder if you would care to comment, Mr. Ambassador?

Ambassador BROCK. Yes, I sure would. Let me give you two answers: First, on the specific of agriculture, and then for the larger and I think more fundamental question.

First, on agriculture, there is just not one moment's doubt in my mind that the GATT has for 35 years ignored agriculture and treated it as a stepchild. They've set aside agriculture as a separate category, not subject to the normal rules of industrial trade.

That's allowed us to get into the present agricultural mess that we've got in the world, where a proliferation of policies—subsidies, trade barriers, quotas, all the rest—are making it very difficult for American farmers.

I do think, in that precise area, the GATT has made some progress as of Geneva, in the sense that for the first time it recognized the need to begin to address that precise problem—the committee, who has set out the term of reference, the willingness to use words in discussing agriculture in the document that had never been used before: The "trade-distorting effect," the "prejudicial effect of subsidies," things like that that the GATT has never been willing to talk about before indicated a clear sign of potential progress. We're not there, but at least we are now facing the question.

We have the group, as of tomorrow hopefully, being set up with a very strong mandate to get with it and start moving toward a solution in this area.

It's the first time the GATT has really addressed this subject effectively, and I think that's a sign of progress.

But here you raise, by illustration in agriculture, the problem with the GATT, because the GATT in our judgment has to be an evolving, living instrument or it's going to simply wither away. One of the trade people in this town has used the analogy of a bicycle. If you are riding a bicycle and it's moving, fine; but if you stop, it's hard to maintain your balance. And I think that's the point.

We asked that the GATT start looking at fundamental questions for the long term. Why hasn't it dealt with services? Should it not? I think the fact that we got an agreement to start studying that issue is of enormous consequence, not just to the United States but to the institution itself.

I wonder if we are not asking more than an international institution can do in a short period of time. The GATT has been enormously successful in dealing with tariffs. They have come far; the concessions that we have that countries have made allowed a substantial increase in trade.

Until 1979 we didn't really begin to face the question of nontariff barriers that were mentioned in the Williams' Commission Report that Senator Grassley talked about.

It's going to take some time. Whether the GATT as an instrument can deal with nontariff barriers, with market versus nonmarket economies, whether it can deal with the problem that Senator Bradley mentioned, which is really pervasive and fundamental, and that's the relationship between finance and trade, I think remains to be seen.

But what we are trying to do now and have been talking to some other people around the world about—I have—in the last 2 months since Geneva, is getting together some people, not just in a Williams' Commission kind of thing but in other international and domestic fora, is to ask these questions and to see if in fact the GATT can manage the very different kind of world economy that we live in from where we were when the GATT was formed—48 countries, basically free-enterprise oriented, setting up trading rules. We don't live in that world anymore—150-odd, 170-odd, countries in the world, mixed, state and market economies—and the rules are very tough to apply with any consistency in a fairly rigid framework.

How do we deal—for example, we tried to raise in Geneva the fact that in the GATT every country is categorized as either "rich" or "poor," but nothing in between. I mean, that simply doesn't make sense. You can't say that Brazil's problems are the same as in Bangladesh, or Chad, or some of the really terribly impoverished countries of the world. But the GATT rules don't take that into account.

We asked the GATT to address it; we were unsuccessful. So we're going to have to address it outside of the GATT and get people thinking about what alternative arrangements would allow for a more flexible institutional framework to deal with the trade barriers that are being built in the gradations of country development.

I'm not sure that we have good answers yet, but at least we have started the quest.

Senator DANFORTH. Senator Heinz?

Senator HEINZ. Mr. Ambassador, one of the issues that was mentioned in the communique was safeguards, article 19, where the difference of opinion between ourselves and many of our trading partners has been over selectivity—whether a country seeking temporary protection can invoke that temporary protection against just a few countries or whether, as we prefer, they would have to invoke it across the board.

And I see that there is an agreement to come to some kind of a conclusion on this issue by the end of 1983. Is the U.S. position, which I strongly believe in for a variety of reasons, going to be fully reflected in those discussions? That is, are we going to give in on the issue of selectivity?

Ambassador BROCK. No.

No, one of the real frustrations of that meeting in Geneva was this particular subject. We had two basic objectives—well, we really wanted the Safeguards Code. Obviously that was not achievable with the gulf that exists between those who advocate pure selectivity and those who say we've got to operate on a pure MFN basis.

The U.S. position has historically been the most favored nation's, obviously, not selectivity.

But in an effort to reach some code that would work, and stop this practice, we came up with the concept, showing you how you can play with words, of "Consentual Selectivity," which means that everybody has to agree with it.

In all candor, we simply were criticized by both sides when we did that. So we drew back, and we said, "Look, all right, we thought you could use our word-of-art, if you will, to achieve a good safeguard code that had certain components: first, it should be with a time limit; second, there should be compensation; third, it should be reduced, in effect, over a period of time; and fourth, it should be negotiated under the consensus arrangement before it is imposed."

Now, we got virtually all of those criteria written into the terms of reference of the committee. That's progress. But I cannot give you a very sanguine projection on whether we can solve this problem, simply because the difference between those, primarily in Europe, and most of the smaller countries, and the United States on the other side—the difference between selectivity and MFN is an enormous difference.

I don't know whether it can be worked out or not. I think it is important that we do so; I think it's awfully important that we try.

Senator HEINZ. If we abandon our opposition to selectivity, we abandon most-favored-nation treatment. And it seems to me the consequences are even further Balkanization of trade than now exists. And a good deal of it does indeed now exist.

You have a 301 petition from the American steel industry alleging, in effect, trade diversion by virtue of an illegal agreement——

Ambassador BROCK. That's right.

Senator HEINZ. With the Europeans.

There is now no disagreement that that agreement exists. There is disagreement over whether it is illegal or not.

Ambassador BROCK. Or whether there is diversion or not.

Senator HEINZ. And whether there is diversion. But it is interesting to me that, where a case is being made, whether we can prove it or not, that trade diversion in a way that hurts domestic industries, not just steel, such a case is then being questioned as to whether this constitutes some kind of an unfair practice, a trade discrimination practice. That amazes me.

And to see any weakening of our position in this regard—and I sense no weakening of resolve in your statement—would be, I think, a total disaster, not just for this country but for any prospect of a freer world trading system in the future.

Ambassador BROCK. Senator Heinz, I could not agree more. I can't think of anything that would more rapidly Balkanize, to use your word, or fragment any institutional, global approach to trade, anything that would do more damage than pure selectivity. I just think that would be a disaster.

Senator HEINZ. Mr. Chairman, in the interest of saving time for the committee, I have a number of questions that I would like to submit for Mr. Brock, dealing with a variety of other issues that touch on but in some cases go beyond the Ministerial. I would appreciate not only your responding, but maybe we could discuss them on some other occasion.

Ambassador BROCK. I would like to very much. Thank you.

Senator HEINZ. Thank you.

Senator DANFORTH. Mr. Ambassador, perhaps the principal argument used against domestic content legislation and other really protectionist proposals is that there is no free lunch in international trade, that unfair trade practices or protectionism practiced by the United States would lead to retaliation or copying by other countries, imitation by other countries and, therefore, while one industry in the United States might have an advantage from an unfair trade practice, other industries or sectors in our economy would suffer.

Do you think that in the rest of the world this perception of cost entailed in protectionism is shared? I doubt it. It would be my guess that most countries feel that they can get away with it without adverse consequences.

Ambassador BROCK. I think that's probably true, or at least true enough to cause us a lot of concern. There are countries that are actively engaging in protectionist actions today. They obviously think it's in their national interest to do so.

It is my judgment that protectionism hurts those of us who impose it more than it does even our trading partners, but they don't agree.

Senator DANFORTH. Their view is that there is going to be no retaliation, there is going to be no counteraction that's effective through the GATT or otherwise?

Ambassador BROCK. I think that's probably true.

Senator DANFORTH. Now, subsequent to the GATT ministerial where such a major issue was made in agriculture, is it the position of our Government that we have to demonstrate through action such as wheat sales to Egypt that agricultural export subsidies by other countries are going to lead to some action by the United States indicating that there is a cost to such subsidies?

Ambassador BROCK. Yes; I think it is the view of this administration that we have an obligation to defend the United States vital interests, and trade is incorporated in that category.

It is our absolute conviction that the ultimate resolution of the problem would be the abandonment of predatory trading practices on the part of any other trading partner, and the moving of this sector to a market process.

We have tried to talk, for 30 years, about this problem. In the sixties it was the United States that resisted any positive movement; so we can't claim purity in our approach. But it is the United States today that is trying to be more positive, more liberal, in the trading approach.

And I think it is our judgment that unless people realize that we will compete one way or the other, we may not make the progress we seek in moving toward the liberal system. So we have to be willing to compete.

Senator DANFORTH. It is your view that we must move to a more open trading system internationally, but that the way to do that is to propose a cost to other countries which are practicing protectionism?

Ambassador BROCK. There are times when that will be required in order to be very sure that we have their interest and attention.

Senator DANFORTH. And with respect to European agricultural subsidies, that time has come?

Ambassador BROCK. Well, as I said earlier, I think we are making progress in the conversation; but at the same time we told our partners in Brussels that, while these conversations would go on and we would act to defend our vital interests, and that we would do so in a nonconfrontational way, very carefully, limited to one or two products in one or two areas, but that we would take some actions, and we would notify them in advance. And we have done that.

Senator DANFORTH. A measured but definite response?

Ambassador BROCK. That is correct. We will compete.

Senator DANFORTH. One final question.

The GATT Ministerial Conference lasted 4 or or 5 days. There were some 88 different countries that were there. They varied greatly in the economic conditions of those countries north, south, poor, or rich, and so on, industrial, nonindustrial.

The GATT ministerial was to be governed by consensus. Do you think it is possible for such conferences to succeed? Isn't it difficult for that number of countries with that number of interests being ruled by consensus, where any substantial number of countries can just break the consensus? Doesn't that become a kind of impossible situation for working out international trade relations?

Ambassador **Brock**. I'm not sure. I think I agree, except for the alternative. I'm not sure I'd want to see it go to a pure vote.

Despite the fact that Baker versus Carr originated in the State of Tennessee, I'm not an advocate of one man, one vote in world political organizations, and certainly not in world economic organizations.

I think that there is a difference between the IMF and the GATT, for example—the political bodies that constitute the international community. And in the economic arrangements that we have, where we effectively have an 88-nation contract, I think there is a value to the consensus approach.

Now, we are not wedded to every dot and tittle about it. The United States made a very powerful argument that in the dispute settlement mechanism, for example, one country should not have a veto of the expressed agreement of 87 other countries. And we moved that process forward a little bit, so one country should not be able to block. Now, we'll see whether it works or not, but our goal is to stop one country from blocking a dispute settlement that is agreed to by everybody else. So it is not pure consensus.

But I think in most of the areas of the GATT it really won't work if we go to a popular vote approach, because the United States is not going to put itself in a position of being pushed around by a majority—we don't do that. We're too big.

Senator **Danforth**. Senator Bentsen?

Senator **Bentsen**. That's very interesting, Mr. Ambassador. On the one point you tell me that we're not going to be pushed around by the majority, and on the point you worked very hard to do away with the one-country veto.

And where you stated afterward that you made considerable progress, or progress was made on that, or you made it much more difficult, I don't see that. I don't see where the progress was made.

It looks to me like it's still the objective of the European countries that it be done by conciliation, and they are not looking at the GATT as really the final arbiter in that kind of a situation.

Ambassador **Brock**. I think that's right.

Senator **Bentsen**. I am deeply concerned about the disputes settlement. When I look at that long docket and the things that have to be considered, a couple of things stand out to me as the dispute settlement—not the question whether the decisions have been right or wrong, but that they make decisions at all.

We have eight cases pending before GATT that are United States initiated cases now; you have three of them that we have been expecting the panel to have a recommendation on for months and months, and they have not done so.

I don't see the progress being made on the disputes part. And one of the things I want to work on in this committee is to try to find ways that we can assist in that regard.

The other one is the question of safeguards. I heard Senator Heinz talking on safeguards a moment ago, and I think he's on to a terribly important area. That's legal within GATT, that we use the safeguards. And if we do so, then we have to give greater access in another area or submit ourselves to higher imports on some of our exports.

But I think when you exercise safeguards that you ought to pay a price for that in this country. If we do that for an industry, then I think they must undertake certain obligations of retraining, or keeping those workers working, that they pay some price to accomplish that. And I think perhaps our legislation—I guess that would be 201—would have to be strengthened in that regard.

I get to this point of agriculture. You feel like you've made some progress there just because they mention it. But that's all it looked like to me, that they were mentioning it; they were mentioning that the problem existed.

But with the European Common Market now spending some $44 billion, the last numbers I saw, on subsidies and taking over many of our markets, I don't see anything we can do except to retaliate to get their attention, as was done on the sale to Egypt.

Now, we are looking at a case on wheat flour, where you have had a case pending some 7 years there without a resolution of it.

So I strongly endorse what was done insofar as the subsidy there to try to get the attention of the European Common Market and move forward. Where do you find in your comment that "it will be much more difficult for one nation to do so in any decisions reached by all other contracting parties"? Where in the provisions of the ministerial declaration do you find that to buttress that statement of yours? I don't see it.

Ambassador Brock. Well, I'm going to have to pull out my document.

Senator Bentsen. And of course we too have used the veto; we used it on DISC.

Ambassador Brock. We did engage in some delaying tactics on the DISC, which gave us a certain ability to discuss the issue, because we were knowledgeable on how the process can be used by one country. We didn't go entirely with clean hands.

Senator Bentsen. But it gets back to the old point: I don't think you can take these things lying down. There has to be some kind of action taken so they understand that we too have such weapons in hand and have the ability and capacity in the world to utilize them unless we get what is truly free trade.

Ambassador Brock. Let me precisely answer your question on this section—I don't want to take the time to read through that thing right now—on the precise world change that we got.

But we did spend a lot of time in discussing the whole dispute-settlement question. You have raised, frankly, the two most important procedural questions that we faced in GATT: (1) safeguards, (2) dispute settlement. Those are the mechanisms without which we can enforce the political statements that were made, or the commitments.

I think we did move in the direction of improving the time, you are absolutely right, and what's happened in the process.

Within the last few days I wrote the Secretariat of the GATT, the Director General, suggesting that if we were going to be faced with these delays, as we are presently faced in a couple of cases that have gone way beyond any reasonable deadline, that it would call into question whether the GATT was an effective instrument for dealing with problems, and we simply found it unacceptable.

And I expect that we will get some movement. Now, if we don't, then we'll have to evaluate again whether or not the instrument is doing its job.

But I think it is true, as you point out, that the difference between our approach and the European approach is fairly fundamental in this area.

The Europeans feel, I think, that we are more legalistic in the United States and tend to want to move instantly to a final adjudication, some court settlement; and, as they point out, there are no jails in the GATT, what do you do to enforce it?

That's a question that really has never been finally answered. There is value in the conciliation process, but in our judgment there does have to be some final end product at some point in time. And that was why we made the effort in this particular category.

The terms that I was trying to reach for have been pointed out to me, where we entered the words "However, they agree that obstruction in the process of dispute settlement shall be avoided." Now what that says is open to question and will be determined on the precedents that are established in the next few months.

If we can create the precedent that one country can't block, then we've changed things. If we fail, then we haven't changed very much, because all we've done then is to express good intentions. But we'll see how the precedents are established.

We spent hour after hour, an all-night session, on this question. The European Community did at one point say that it was not their intention to have a single-country veto. Now, if they and all of our other trading partners adhere to that, we've moved in a very positive way; but we'll see.

Senator BENTSEN. Yes; because even though there is the statement that the intention is to avoid obstructionism, I really don't see anything that prevents the one-country veto.

The CHAIRMAN. Senator Mitchell?

Senator MITCHELL. Thank you, Mr. Chairman.

Mr. Ambassador, in your remarks you expressed concern over the increase in this country of demands for protectionism, and indeed many of the committee members in their opening remarks made similar comments.

One of the reasons for that rise, as you know, is not only the high level of unemployment in the country but also the widespread belief that the policies of some foreign governments are putting U.S. firms at an unfair disadvantage.

We have existing laws to deal with those problems, but those laws leave something to be desired. And it seems to me that one way, one positive way, to deal with this situation would be to improve the existing laws governing import relief.

I will be introducing legislation in that regard, and I am certain there will be a number of other bills intended to improve the access of small businesses to the import-relief laws and to provide for a more prompt and less expensive procedure.

I want to ask you, do you agree that the costs of obtaining trade relief are too high now and that they represent a barrier to the small businesses' use of these laws?

Ambassador BROCK. They can constitute a barrier, particularly to medium and small business. The costs can be very high in relative terms to businesses in that particular category.

Senator MITCHELL. Will you then support work with this committee in trying to develop legislation intended to make the proceedings less costly and more readily available to small business?

Ambassador BROCK. Yes, we will.

Senator MITCHELL. That's very encouraging, Mr. Ambassador.

Ambassador BROCK. I am saying "Yes" to the part of "work with." I want to be sure what I have to support before I——

Senator MITCHELL. Oh, I understand that, and I would not construe that as a blanket commitment to support. But I think it is significant that you realize that there is a very real problem.

Ambassador BROCK. Yes; there is.

Senator MITCHELL. Any law that exists on paper but doesn't represent a living reality is actually worse than no law at all, because it creates the illusion of a remedy where in fact no remedy exists. And I think that's very important.

It seems to me that the laws may have been intended for those industries which are dominated by a few large organizations, and simply are inapplicable as they are now written to those industries which are represented by a large number of small businesses.

Ambassador BROCK. Yes.

I think the point is valid. I want to be very careful, Senator, and we really shouldn't get into the details of the legislation at this point because we have given it some thought in my own office, but I want to be very careful that what we do does not simply result in a lot of people filing cases that are not valid. We have to be very sure that the remedy goes to the problem and not to the creation of a new problem.

Senator MITCHELL. Well, I don't disagree with you on that, but there are many areas in which these laws can be improved, rationalized, and the proceedings made less time consuming and costly.

For example, in the number of steps in the judicial review process, it seems to me they could be shortened without doing any injury to the process.

As a former lawyer and judge, I am very happy for all the lawyers in the country who are making a good living out of this, but the purpose is not to create more business for lawyers but to provide for more ready access to the promise of the legislation to the applicants. I think that's one area, for example, that could very easily be improved.

Ambassador BROCK. I am very sympathetic to that, personally.

Senator MITCHELL. I thank you for that.

Let me ask you a question on one other area that is of more immediate concern to me.

As you know, the United States and Canada are each other's most significant trading partner, and yet we seem to encounter, perhaps because of the extent of our trade and our geographic proximity, continuing trade tensions and irritations. You and I have discussed the many that affect the people in my State, and I am sure it is not limited just to Maine but exists in many other parts of the country.

Last year some trade analysts suggested the creation of a joint United States-Canadian Economic Commission to help resolve disputes between the two countries.

Ambassador **Brock**. Yes.

Senator **Mitchell**. My question is, Have you examined and studied this proposal, and if you have do you think that creating such a new institution could help to minimize trade tensions between the United States and Canada?

Ambassador **Brock**. It's possible. I think the point you made earlier is the important part.

We have the largest trading relationship with Canada that we have with any country in the world. It's the largest between any two countries in the world. It is of fundamental benefit to both sides. And because of that, we have continuing conversations between trade, finance, and other officials.

Whether the process could be moved along more effectively through some formalization of a commission, I would be willing to explore it with the Canadians and see what they thought, but I really would like to reserve judgment until I see what their reaction might be and what our own approach might be, and whether or not I think it could be effective.

I sure don't mind more contact. They are too important to us, it's too good a country, for us not to do whatever we can to work more closely together. And we do have problems, obviously.

Senator **Mitchell**. Well, I'd like to pursue that further with you. We don't have time now, but I will do that.

I would merely point out that it seems to me that the very quantity of trade that exists between the two countries. You have just suggested that our trade with them is larger than with any other two countries.

Ambassador **Brock**. That's right.

Senator **Mitchell**. Combined with the geographic proximity, which of course contributes to the first point, it seems to me to be a justification for creating a special mechanism for dealing with it. You are going to have more trade, and therefore more trade tensions and more trade problems, and we may need some kind of mechanism.

Ambassador **Brock**. I understand the logic of it. I guess I'm a little cautious, simply because we've created a number of these in the last few years. And I am looking at my own schedule. I'm trying to work a 26-hour day, and it's hard to do.

You were gracious enough in the legislation last fall to provide another deputy, and that will help; but we do have a very limited staff in the USTR, and it's hard to fully staff these at a high enough level to make a difference. That's the only caution I have.

Senator **Mitchell**. Thank you, Mr. Ambassador.

Mr. Chairman, I have several other questions I would like to submit in writing to the Ambassador.

The **Chairman**. Yes, without objection.

Senator **Mitchell**. Thank you.

The **Chairman**. Senator Bradley?

Senator **Bradley**. Thank you, Mr. Chairman.

Mr. Ambassador, I don't mean these questions to in any way be second-guessing; so I would like to say that up front. But I would hope you would be candid with us about the dynamics of this process at the GATT Ministerial.

As I understand, we had a couple of objectives when we went in: To generally lessen protectionist pressures, get some kind of dispute settlements or safeguards movement, try to deal with the agricultural problem particularly in Europe, address some of the newer issues on services and investment incentives and high technology, and north-south. I mean, that's basically what the agenda and the hopes were.

As you came into the final day, or what was going to be the final day of the Ministerial, the text of the statement on such things as services or on dispute settlement were in some senses much stronger than the final document.

For example, on services, instead of saying you should have national studies, "if you want to have national studies." It was the GATT Secretariat that was supposed to conduct the study on services.

On dispute settlement, it said "the panel decisions would be binding." As it turned out in your testimony and in Senator Bentsen's questions it says simply "No single GATT contracting party should block GATT."

Now, at the same time, in the final part of the meeting you had these very strong statements: "We were pushing very hard on agriculture"—pushing very hard on agriculture.

Do you think in retrospect it might have been better to simply agree to disagree on agriculture and have some future meeting to decide it, and take these stronger statements on other objectives that we had going into GATT, rather than to continue to push on agriculture and in the final analysis have much weaker statements on services and dispute settlement and these other areas?

Ambassador BROCK. Not really, because the tradeoff was not offered or available in that framework. If you look at the services question, for example, we didn't have the opposition of the EC; they supported our efforts there.

The opposition on services came from a number of developing countries who felt very strongly, as a result of a G–77 motion that was adopted by all of the developing countries, that services should be dealt with in UMTAD rather than in the GATT, that it simply was not a matter before the GATT at all.

It is my judgment that there was no compromise we could make in that area. We had to get services on the agenda. I think the fact that we did, even in the fuzzy language that we got, was something that may be of more fundamental consequence in the trading system than almost anything else that was done there.

There was an interesting article in the Post, I think today, by Harry Freeman, that voices that view.

Senator BRADLEY. But what about dispute settlement?

Ambassador BROCK. Dispute settlement was between us and Europe. I don't know whether they would have been willing to make the trade.

I couldn't, in all conscience, abandon what we were trying to do with agriculture. It's a $40 billion item for us, in terms of earnings for this country. And that's too much for us to concede. We simply were not in a position to back off on that subject.

Senator **Bradley**. Even if nothing was produced, essentially?

Ambassador **Brock**. No, I really don't agree with that. The fact that the GATT has done something that it hasn't done in 35 years, and that's to recognize that it has to be dealt with and to set up the terms of reference to deal with it, was a major step forward.

Senator **Bradley**. Would you agree, having been there, that the GATT Ministerial was conducted in like three circles—the Third World, EEC, and the United States—and when we agreed with the one the other one would disagree, and when we agreed with the other the third would disagree?

Ambassador **Brock**. Pretty much.

Senator **Bradley**. That illustrates the larger problem though, doesn't it, which is the cumbersomeness of this kind of body trying to resolve these international disputes that have incredible complexity and that are particularly related not just to trade matters but to financial matters?

That leads to my second question which is, in your statement you say "will be the first and strongest economy to emerge from the recession during the course of the next year." The real question is: Do you think that these Third World countries who are laboring under this avalanche of debt will ever get their economies growing to the point that they will be able to repay this debt? And this leads to what is the paradox of austerity.

You know, in order to get their loans forgiven or to get extensions, the IMF or whatever body says, "Well now you've got to run your economy through the wringer," from which it is very difficult to determine where will growth come from, if they are running their economy through the wringer, and therefore where will they get the foreign exchange to repay the international banking community? And that reflects, then, on what are we prepared to do? How are we thinking through this problem, this contingency problem, this contingency vulnerability in our financial system as it relates directly to the trade issue?

Ambassador **Brock**. All right. You have raised two questions. The first one I will try to deal with very quickly, and that's the concern that I had with the politicization of the GATT, putting an economic contractural organization into a political context.

I think that was one of the things that bothered me most about the ministerial, the meeting of developing countries to vote as a unit and to insist on decisions not on the basis of economic rationality but on political heft. That troubled me deeply, and we did not resolve it literally until I guess the Sunday, the final day of the session. But we came very, very close to breaking up that organization on that basis.

Senator **Bradley**. Breaking up——

Ambassador **Brock**. The whole GATT.

Senator **Bradley** [continuing]. The whole GATT.

Ambassador **Brock**. In my judgment we were within inches of falling over the abyss into no institutional arrangements at all, no code.

Senator **Bradley**. On what issue?

Ambassador **Brock**. Well, on our inability to reach a consensus on these fundamental questions of services, what the competence of the GATT is, on agriculture and whether or not it should deal with that kind of subject.

I, frankly, was deeply, deeply troubled. I don't know how much credit the United States can take; but I am convinced, had we not been there, there would have been no GATT the day after the meeting.

Senator **Bradley**. What about where growth is going to come from? And I know my time is up.

Ambassador **Brock**. I think that's the real question that we have to face.

One of the things that has troubled me in 2 years of working this job is the absence of understanding of the linkage, the interrelationship between trade and finance, that you mentioned earlier as have I. What standards the IMF puts on a debtor country can affect (*a*) their short-term debt service, but also (*b*) their long-term recovery process.

We face an enormously dangerous role right now. If the banks, who have been burned now in this debtor circumstance, don't extend the loans, then the loans can't be repaid. If they don't repay the loans, then we have the prospect of financial crisis. If the loans are put in at too tough a terms or at too high a price, the same situation applies.

If we close our market to their product by protectionism, or if Europe does or Japan does, and they have no place to sell their goods, they can't pay their balance of payments no matter how many loans they get.

Senator **Bradley**. Do you think we should be thinking about a way to write those loans down to market value and free the financial system of this avalanche of potential default and debt and bankruptcy?

Ambassador **Brock**. I don't know that I should answer that question. I think maybe I'd rather defer it; but my instinct would be no, because I'm not sure that the financial statements of the major banks could take that kind of a write down. They almost have to have a continuing process of rolling the debt in order to maintain their own financial liquidity and solvency.

If we can get through the present crisis, as I think we can, by beefing up the IMF, by dealing with the World Bank—and let me be very frank, the Congress is going to have a lot to say about this, because if we do not fund the international monetary instruments out of this Congress, then other countries can't either, and we are going to face a real problem that's going to cost us as much as anybody else.

We pay, you know. And I think we have to understand just how serious this problem is. The Congress is going to have to face IMF funding, World Bank funding, IDA, and similar questions this year, and very quickly.

But if we can get through this period, as I think we can, with the restoration of growth here which can help trigger one in other nations, then over a period of time the problem can be worked out.

We have seen an explosion of debt in the last decade the likes of which the world has never seen. And in all candor, I'm not sure that any of us in 1972 would have predicted we could have survived what's already happened in the last decade. So maybe we've done better than we thought we have.

The CHAIRMAN. Senator Long?

Senator LONG. Mr. Secretary, I've heard a great deal said by witnesses down through the years, especially witnesses speaking for various administrations on trade, that would not stand up under thoughtful analysis.

Now, one thing that has been said on occasion—not necessarily before the committee—that made great sense to me was something that Pete Peterson said when he was Secretary of the Treasury at a conference. He said down at the Blair House that, "Each nation ought to be willing to settle for a balance in its trade accounts with all the other nations," and that if each nation would do that, the system would work.

In other words, that's not saying that we ought to have a balance with every nation we are trading with, but if our overall merchandise account worked out to be in balance and every other nation's overall trade account worked out to be in balance, the whole system would be in balance and it would work.

If one country like Japan, as an example, has maybe a $36 billion surplus at the expense of all the other countries, that means that the rest of the trading countries have to share the debt that's been created. And when other nations then proceed to follow beggar-thy-neighbor policies in that regard, the system breaks down.

If some nation needs to trade in order to survive, and has a huge debt, it seems to me we ought to all try to work together to help them achieve a balance by doing what is necessary to bring that about, and make some accommodations if it costs us a little something, to agree to it, to work it out.

Now, that to me is the logical way to go about this world trading system—if one nation has a huge surplus that is creating problems for everybody else, we ought to all work together to put the pressure and logic and goodwill to bear on those people to agree to a set of conditions that would tend to bring that Nation's trade into balance. And so it goes with the rest of them.

Why aren't we working along that line in trading with our partners around the world?

Ambassador BROCK. I think we do. In all candor, the United States had the positive trade balance. We had a positive trade balance of $60 billion in the 1970's.

Senator LONG. Did you say a positive trade balance? Well, the Secretary of Commerce just got through telling me yesterday evening that on our trade account we are in the red $44 billion this year; it's going to be $70 billion next year. He was talking about something different than you are talking about, I assume.

Ambassador BROCK. No; we are talking about the same thing. I was talking about the 1970's when we were doing pretty well. We had a couple of occasions when the exchange rate went—when the dollar was overvalued, and we suffered on exports. But we also had several years in which the dollar was undervalued, and we had a good surplus. The total was about $60 billion in that decade.

Right now the dollar is overvalued. It has come down the last 2 or 3 months; but it has been very, very high, and that's put a premium on U.S. exports and made imports very competitive.

Senator LONG. Mr. Ambassador, I would invite you to just give me a list, a column of those figures as you add them up; because, you know we fought administrations and we changed the law over administration objections because their figures weren't telling the truth at all. In fact they were giving us a lot of deceitful figures, and we finally just changed the law to make them report it the way we thought it ought to be reported, on a CIF basis.

Now, you are familiar with that. You were on the committee during some of the years while that stuff was going on.

Ambassador BROCK. That's right.

Senator LONG. Here's a list that was referred to me here, from 1970 to 1981: $0.2 billion in 1970; $17 billion in 1976; 1977, $39 billion; 1978, $42 billion; 1979, $40 billion—these are all minuses—1980, $36 billion; 1981, $39 billion; and I'm told it's $44 billion for 1982. Now that's a great big deficit.

I invite you—send me your figures; I'll look at them; I'll give you my figures.

Now you say in your prepared statement today—and I'm not even sure whether I'm for knocking out the single-country veto—but you say here that this provision of the ministerial declaration, you think or you hope it will do that. The provision says:

"The contracting parties reaffirm that consensus will continue to be the traditional method of resolving disputes;"—There is a semicolon there. That to me would say that you've got to have unanimous consent, if you are talking in terms of the U.S. Senate, to resolve the dispute. Then the provision goes on, "however, they agreed that obstruction in the process of dispute settlement shall be avoided."

Now, that to me doesn't mean that you don't have what the previous phrase said. It seems to me that all that says is, if anything, that you won't filibuster or something of that sort.

But I defy anybody to show me where this says, "however they agreed that no country shall have a veto in the process of disputes settlement." It just seems to me, to put it in terms of the U.S. Senate rules, if you say that "These matters will only be settled by unanimous consent; however, obstruction will be avoided," that says that as long as anybody objects you don't have an agreement, but nobody is going to filibuster. That's what it would mean to me.

Ambassador BROCK. There is a difference between "consensus" and "unanimous consent." We were trying—one of the things we were arguing about was whether "consensus" was 90 percent, 95 percent, or all but one, all but two. And we were trying to reach a point where "consensus" meant that effectively all the parties except one were in agreement as to what the rules were and how to solve the thing, and that one country should not have, in effect, a veto of the rules.

We still believe that the rules themselves ought to be written by, effectively, unanimous consent, by a full consensus; but what we were worried about in the dispute settlement is if one country—you know, if you and I are disagreeing on a thing, and we are putting it before all of these other members, and everybody says, "OK, Senator Long, you are right and Bill Brock is wrong," then I should not have the right to veto that interpretation of rules. And that is what we were reaching for. We did not achieve an absolutely clear statement to that effect, I grant that.

Senator LONG. Well, let me just speak to it as a lawyer. It seems to me if I'm looking at this provision you are talking about—the French version may be different, but I am reading what it says here in English—it seems to me that if you've got five people there and one doesn't agree, you clearly don't have a consensus.

Now, let's say you've got 81, and 80 agree and one doesn't, is that a consensus? Well, I don't know. At what point does a single objection mean that you don't have a consensus? I defy you to produce that point. And that being the case, nobody is bound to a decision where his single objection would not protect him. In my judgment from his point of view, the contract would be void for vagueness, lack of certainty, and so it would be unenforceable.

And I think that's what you mean here when you say:

> The real test, however, will come during the next few months in application of this commitment. If successful, we will establish the precedent that no single country can veto the dispute settlement process.

That means, "if all of them agree to it." If all of them agree, then it means something which it clearly does not say.

Now, I am not sure whether I am for the one-country veto or not, but all I can tell you is——

[Laughter.]

Senator LONG [continuing]. You don't have that thing nailed down. [Laughter.]

Ambassador BROCK. That's right. The only way we are going to nail it down is by precedent. And if we can do that, we've accomplished something. If we can't, then we are going to have to go back.

Senator LONG. Thank you, Mr. Secretary.

The CHAIRMAN. Senator Pryor?

Senator PRYOR. Thank you, Mr. Chairman.

I may get thrown off the committee my first day, with this question. But I would just like to ask the Ambassador about an area that I am interested in, and it does specifically relate to agriculture.

Is there anyone in the community that you deal with, those who are expert in international trade matters, who gives or any serious consideration to a barter system for our existing grain supplies?

It seems that I am seeing more written about the barter concept as a positive way to rid ourselves of this enormous surplus, as a constructive way to help feed a third or two-thirds of the world's hungry, in exchange for minerals, to exchange for example, Jamaican bauxite for grain. Is any consideration being given to this idea?

Ambassador Brock. Yes, we have looked at it at some length. It has some application today because of the debtor circumstance that Senator Bradley was talking about. There are countries who simply do not have the cash to buy agricultural products. And if they have some mineral or resource that is available, barter can be considered.

We have been reluctant, on the part of Government, to get into arranging those sort of things, because that's an intervention that we think can be better done by the private sector. But there are some of those arrangements.

The one thing that would worry me is, it's a very short step from that practice to the next statement, which is that "We will only buy from you if you will buy from us an equivalent amount." We are seeing a little bit of that kind of discussion; a few countries are already beginning it. And that creates a distortion of trade that is dangerous.

Senator PRYOR. I have several questions that I may ask later. I think in the interest of time that I may submit those in writing, Mr. Ambassador.

Ambassador BROCK. Thank you very much.

Senator PRYOR. And I thank you.

The CHAIRMAN. You have further questions?

Senator PRYOR. I have none at this time, Mr. Chairman.

The CHAIRMAN. You are going to be a good member of this committee. He'll be breaking new ground. [Laughter.]

The CHAIRMAN. Senator Matsunaga?

Senator MATSUNAGA. Thank you, Mr. Chairman. Mr. Ambassador, I too join the members of the committee in commending you for the effort you have exerted toward bringing us out of the economic stagnation that we appear to be in, through trade.

I think you made an indisputable observation when you said "No economic subject considered during the 98th Congress will be discussed without the mention of jobs." And you also observed that "a steady increase in the volume of exports and imports is central to the creation of new, more stable employment, higher real income, and a healthy economy."

Now, with relation to exports, yes, I can see that we need to increase the volume. With relation to imports, I suppose you mean a steady if not an influx of imports by your statement.

Ambassador Brock. I think that's a fair summary.

Senator MATSUNAGA. Right.

All right, now, when Prime Minister Nakasone was here and met with the Senators last week, he made this suggestion: that if you want to sell goods in Japan, and he cited automobiles, he said: "Why don't you shift your steering gear from the left to the right?" He said, "The traffic in Japan is on the left, and you can't very well sell the Japanese cars with steering gears on the left because of the safety factor involved, for one thing."

Well, this was a suggestion that was made as early as 1979, when I accompanied President Carter to Japan to the energy summit conference there. I met with Japanese businessmen there and asked them the question: "Why don't you permit American cars on the streets of Tokyo?" I told them the biggest complaint against Japan was that, while we have every other car on the streets of Washington, the Nation's Capital, a Japanese car, in Japan you can't find a single American-made car.

And at that time I was told the same thing that Prime Minister Nakasone suggested to the Senators only last week, that if you want to sell American cars, shift your steering gear from the left to the right.

When Senator Long was still chairman of this committee, you recall I asked that a hearing be held relative to that matter, and we had representatives of the American auto industry here. I posed the question:

> Is this true? The dealers over in Japan say that they have asked you to shift the steering gear from left to right if you want to sell American cars, and you have refused to do so?

The response was shocking: "Yes, it is true. But," they said, "Senator, our market is not in Japan, our market is in the United States." And Senator Long will recall that, I think.

So my question is this: Now we have the ITC looking into the facts as they relate to imports. Do you suppose that we should extend the additional responsibility to the ITC to look into facts pertaining to our exports? That is, why our exports are not selling.

And in this connection I might also state this: I was told by the Japanese back in 1979:

> You know, you American furniture makers, complain about not being able to to sell American furniture in Japan. Well, we've told them to shorten the legs of the chairs and the tables for the shorter Japanese, and they absolutely refuse to do it. So the shorter Japanese, with shorter legs, are not going to buy chairs of which their feet dangle in the air.

[Laughter.]

Senator MATSUNAGA. And so my question to you is, should we not perhaps have a factfinding authority, such as the ITC perhaps, to find out what is wrong with our products which are not selling in foreign countries?

Ambassador BROCK. Well, there are a number of agencies of Government that do that work now. I am tempted to say if we want to sell them chairs, maybe we should sell them saws, too. But they are not buying either one.

You simply cannot make the argument that Japan is not buying American products because we're not trying, or we are not willing to meet their standards or their specifications.

Senator MATSUNAGA. Well, if you don't shift the steering gear, are you trying?

Ambassador BROCK. Senator, we are making cars all around the world. We have got plants in Brazil, in Australia, in Great Britain, and France, and we are putting steering wheels on the other side of the car.

Nobody is selling cars in Japan. It isn't just the United States. You can't get cars into that country because every single item of that car has to be changed. It isn't just the steering wheel—the safety standards, the taillights, the bumpers, the emissions, the headlights. Everything has to be shifted. And then on top of that there is the commodity tax on the size of engine that makes our size cars noncompetitive.

Now, as we are producing a model that is very different from what it was in 1979, as we are shifting to a different product mix, perhaps the situation can change.

But the fact is, our costs are higher in that particular industry, and we don't have a product that can compete on the streets of Japan regardless of where the automobile has its steering wheel.

It is in the other areas of Japanese competition that I think we have a legitimate complaint, not in cars but in other areas. U.S. cosmetics cannot be certified by U.S. laboratories, which are the best in the world. The Japanese have finally, after 2 years, or maybe 20—I don't know how long my predecessors were arguing on this subject—have agreed to look at the change of their laws to accept U.S. certification and testing. But that affects 60 percent of all that we produce.

We have products that are far higher quality than that of the Japanese. They are competing in about five basic industries, and in virtually every other area we have a better quality and a better price. Our prices are far lower than theirs are on most consumer goods, and we are not getting those goods into Japan, and that is a legitimate complaint on our part.

Senator MATSUNAGA. I know my time is up, but if I may follow with one further question.

Of course, I think you have rightfully observed the high interest rates and the excessive valuation of the dollar. That accounts for a lot. But how do you explain the great success that we have had in agriculture with Japan, where Japan imports 60 percent of its agricultural products from us? And in the case of soybeans, for example, it imports 95 percent of all soybeans consumed in Japan from the United States, with all the same ingredients of high interest rates, high-valued dollar, et cetera. What is the explanation here?

Ambassador BROCK. They don't have any land. They can't grow those products. The Japanese are very willing to import those things which they do not have.

Our problem has never been in that kind of category; the problem has always been when they are trying to protect an infant industry that they are trying to build up, that they have targeted, whether it is telecommunications, or computers, or automobiles, or steel, or whatever.

Look at wood-paper-pulp products. You mentioned furniture. We have the finest industry in the world. There is nobody who produces a better quality product at a better price than our whole wood-paper-pulp products industry. We can't get those products into Japan. We can't get them in because of cartels that exist in Japan, because of nontariff barriers.

Now, we are going to get them in sooner or later, but the point is that our people have a right to complain about a practice that denies them a competitive opportunity when they have a better product at a better price. That's the whole argument on Japan.

Senator MATSUNAGA. You are optimistic, I hope, relative to reducing nontariff barriers?

Ambassador BROCK. Relatively optimistic. It is going to take some time.

Senator MATSUNAGA. Thank you.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Secretary, over a year ago I asked you how far, in your judgment, Japan had gone in reducing its barriers to the trade in American products. At that time you said about 10 percent of the way they should go.

My question now is, in your judgment today, how far have they gone?

Ambassador BROCK. Considerably further. The complaint that I think I mentioned to you at the time was that they seemed to want to act on each item—one tariff reduction here, one modification of quota there—and not in a generic or across-the-board sense.

On Friday before the Prime Minister came, the Cabinet met and addressed one of the most fundamental issues, and said that they were willing to consider changing their law on certification of imported products. If they make that change, that affects 60 percent of all that we produce. And that would make a fundamental difference in the trading system.

Senator BAUCUS. What I am trying to get at, do you think they have gone about 20 percent of the way on certification, or 40 percent? I am not going to hold you to it specifically, but I am trying to get a feel, in your judgment, of how much further you think they can go.

Ambassador BROCK. In terms of government action, they are closer to 50 than they are to 10, but they are not there yet.

Senator BAUCUS. All right.

Now, what about in agricultural products, in nontariff trade barriers to agricultural products?

Ambassador BROCK. They have modified——

Senator BAUCUS. Wheat? Tobacco?

Ambassador BROCK. They have no barriers to the major items like wheat, soybeans, things of that sort, because they are the largest single-country market we have.

The remaining barriers are primarily in beef and citrus. Those are the two items of consequence, and there has been virtually no change.

Senator BAUCUS. Well, let me take issue a little bit with your last statement. I know there are no tariffs, in any appreciable extent, on wheat and livestock products; yet, as you know, they keep adding on at different stages in their process, from the importer to the miller to the user, and so forth, so that say beefsteak in Japan is in the neighborhood of $30 a pound, perhaps, and there are more and more, which is a lot higher than it is in the United States. And the same is true of cereal products.

So in effect there are nontariff trade barriers. It is more difficult for the United States to sell its products.

Taking that into consideration, how much further do you think Japan can go in reducing agricultural nontariff trade barriers?

Ambassador BROCK. I don't know. There is one difficulty in dealing with something like beef. We did, in the previous administration, sign an agreement with them as to the level of that quota, and we are bound by that agreement until April of 1984. They could move, though.

Senator BAUCUS. Well, let me turn to EEC. How much further do you think the EEC should go in reducing the barriers to American products? Do you think they have gone about 20 percent or 30 percent of the way they should go? Or should they go further? And how much further?

Ambassador BROCK. The complaint we had with the EEC really isn't on the barriers but rather on the export subsidies.

Senator Baucus. I am referring to export subsidies, particularly.

Ambassador Brock. Yes.

There has been almost no movement at all in terms of specific reductions of subsidies for export on the part of the EC.

For the first time there have been very constructive conversations that we think, in the next 90 days, can lead to some improvement. But one of the reasons that we have taken some of the actions we have with selling U.S. products overseas, some authorized by the Congress last fall, is because we have simply decided that we have to compete, and we will do it on whatever basis they choose to compete.

Senator Baucus. If I understand you, then you feel the EEC should go what?—80 percent greater distance, generally speaking, in reducing trade barriers, particularly export subsidies? I am just trying to get a sense, again, of how far you think EEC should go in reducing export subsidies.

Ambassador Brock. Ultimately we don't believe you can have export subsidies in a liberal trading system, because they distort the system. So, ultimately we would like to see the export subsidies eliminated.

I grant you that it can't happen overnight, but that certainly should be the direction we are moving in.

Senator Baucus. Well, I appreciate your answer. I am asking these questions primarily because as I read your statement I was a little surprised and even a little disappointed in that the statement, to me, seemed to be somewhat a defense of our failure to get more at the GATT Ministerial and, more important, a defense of free trade in the world, pointing out that whereas our economy is not in the world's best shape, other countries' economies are in worse shape, somewhat as a justification for the free trade argument, that is, arguing against protectionism at home.

I think all of us understand that and agree with that, but I was a little surprised and, as I said, disappointed, because the statement didn't go further in any appreciable way in saying that the EEC and Japan and other countries in the world should go a lot farther in playing their part in the free trade community.

I asked myself, "Is Ambassador Brock an FTR for the world or for the United States?" And I got a little bit of sense that he's advocating free trade as somewhat laissez faire calming the world, which I think basically all of us in principle agree with; but I didn't get a sense, on the other hand, that you were coming up with ideas to help strengthen the American economy, and one is to be tougher with other countries to get them to reduce their barriers of trade, that's No. 1. No. 2, along the lines that Senator Matsunaga mentioned, is that the United States can do more to penetrate foreign markets and to excel much better in foreign markets. That is a whole heading of education, learning foreign languages, foreign customs, and just kind of changing our mindset a little more so that we are doing a little better overseas.

That also goes to perhaps the development of a Department of Trade, restructuring our executive branch of Government so that we are more aggressive in pushing our products overseas, standing up for America a little more within the context, by and large, of a free trade economy, and even more toward strengthening our domestic economy so that we are doing better as Americans.

After all, we are Americans first, and members of the world community second. We are members of the world community, but I think second, and Americans first.

So I hope that in the future when we have these kinds of meetings and others that, in addition to defending the kind of free trade mentality, which I think does make sense, that we go the next step and do more to get those barriers to trade that other countries are imposing down and ways to strengthen our economy in other ways.

Ambassador BROCK. Well, I don't disagree. I think the next time you want to have a conversation, we can talk about that. But the subject today was the Ministerial.

Senator BAUCUS. The GATT Ministerial. I understand that.

Ambassador BROCK. And I was trying to establish the context for that particular meeting.

I also assumed that the willingness to get tough could be illustrated by some actions that we have taken, and I think have gotten some results.

We have taken back the wheat flour market in Egypt within the last couple of weeks, and I think that was a very positive step.

Senator BAUCUS. I just urge you to find whatever levers we can to encourage other countries to go further.

I think it was clear when Prime Minister Nakasone was here, he in effect was agreeing that, "Yes, Japan can do a lot more." And we talked about Japan contributing more to defense. He tacitly agreed, "Yes, Japan can do more."

We asked Japan what further steps are they taking to reduce barriers of trade, and he again implicitly agreed, "Yes, Japan can do more."

So I just hope in the future we just keep pushing on that, and as you know, that will help prevent the kinds of protectionist that you read about.

Ambassador BROCK. We shall.

Senator BAUCUS. Thanks.

The CHAIRMAN. Senator Bradley, I understand you had another question?

Senator BRADLEY. Yes, just one more.

I would like to just follow up, if I could, Ambassador Brock, with your statement about the Government's role in an emerging solvency crisis in the banking system, if I could try to set it in the context of what's happened in the last year or so.

I think that before you say "No, Government shouldn't have a role in assuring ultimate solvency of the banking system," and I don't think you've said that precisely——

Ambassador BROCK. I didn't mean to.

Senator BRADLEY. I think that you have to reflect back to the first OPEC price increase, which was a tax on industrial countries, a tax which, because of our prosperity, we were able to pay, though with some burdens; while the Third World couldn't pay that tax.

The question was at that time how we resolve that problem—if the Third World couldn't afford the tax, they would be bankrupt, which meant that the markets for 35 percent of our exports would be no more, in addition to very serious starvation.

The option for dealing with that was: (*a*) increase another tax on industrial countries and send aid to those Third World countries, or (*b*) try to recycle that petrodebt through the banking system. And our governments chose to encourage the banking system to recycle that petrodebt, making loans that no banker would have made had the Government not assured him that countries don't go bankrupt. And, indeed, the banking system made these enormous loans.

Along came this recession, the causes of which I think are clear, relating to domestic economic policy in this country. And that recession then created amazing problems for this banking system that was glutted with bad loans that were made at the encouragement of Government in the mid to late 1970's.

It was really in the last 6 months only that the governments began to recognize that there was a liquidity problem.

I remember a year ago when we were calling for raising the IMF and some emergency fund. We were told, "Well, things will work out. Everything will be fine." And indeed the biggest change in this administration, in my view, in the last 6 months has been its change on quotas for the IMF, agreeing to double those quotas, on creating an emergency fund, which in Toronto they said they would not do.

I am saying that we now are at a point where Government is considering the liquidity problem, and I think we are going to come to a point where Government has to begin to consider the solvency problem that we alluded to earlier. How these countries are ever going to repay their debt that continues to get bigger and bigger as we give them longer to pay is beyond me.

So I am urging you to try to think through an administration policy to figure out how to rationalize that debt, which means accommodate that debt. Because if you don't and the crisis hits us, it is going to affect credit in New Jersey and Montana and Louisiana. It's going to cut jobs, reduce jobs, in New Jersey and in Montana, and in Louisiana and in Hawaii, and in all the other States of committee members.

So, I don't see any thought being given to this in the administration. We are at the point where we are now considering liquidity as a problem; but what thought is being given to the longer term solvency question?

Ambassador BROCK. You know, I'm not sure I disagree with anything you've said. I would question, perhaps, that the global recession was brought on by domestic policy. Certainly it was exacerbated domestically. When we came in the interest rates were 21 percent, and inflation was 13.5 percent. No country can get by without a recession when you have that kind of erratic economic behavior.

But regardless of the components of the problem, the fact is that we do have a global financial crisis. It is both in the liquidity and in the solvency area, and I think the actions we have taken on the liquidity side have been pretty constructive. But the longer term question is valid, and we have put a lot of thought into it and had a lot of discussions.

It isn't a very simple answer. You've got to consider two to three different aspects. First, you have to deal with the liquidity crisis through IMF type programs, through World Bank development loans, and other things that can help, plus bridging loans from the United States, all of which we have done.

Then you have to look at what the economic prospects of a Brazil are. And perhaps the largest question we don't answer in domestic terms, when we start debating whether we should have domestic-content laws or other forms of protectionism, is what does that do to that solvency of a trading partner? Because if in fact we abort their opportunity to recover by selling their goods, then there simply is no prospect for a restoration of the solvency. Brazil is a very healthy, strong, fundamentally stable country.

Senator BRADLEY. But you see, my argument would be that the economic policy of the last 18 months has prevented them from selling their goods anyway, because the value of their goods has dramatically changed because of the international financial debt problem, that they have to repay more and more and more. And therefore they can never get the growth that they need to be able to repay ultimately what they've been lent.

Ambassador BROCK. May I suggest to you that the interest rates in this administration are half of what they were in the former administration? We at least are moving in the right direction.

Second, the strength of our economy has resulted in a stronger dollar, in relative terms, so that their currencies, if they will let them go to the market rate, and some of these countries, particularly Brazil for example, has held the cruzeiro at a higher rate than the market would normally dictate—but as they engage in moving gradually toward a market rate through many devaluations, they do have a competitive opportunity. Their products are cheaper, and they can sell those products in our market if we don't close our markets.

So it takes both sides to work this problem out, and we are doing everything we know how to do to be sure that they have that opportunity. And I think we have been very supportive of the Brazils of the world. I'm not sure what additional steps you would suggest.

Senator BRADLEY. Well, let me just suggest that the making sure that we don't close off our markets is certainly something that I can support; but I don't know if that's going to be enough if we don't do something about this avalanche of debt that is above all of these countries.

You know you'd have to sell an awful lot of products in the United States to be able to repay the ever increasing debt service that they have been given the privilege of paying as an option to going bankrupt today. And sooner or later that is going to come home to roost, that's my basic point, unless Government intervenes to do something about rationalizing the size of that debt. And I think ultimately we are going to come to that. I know no one wants to think about it now, but ultimately we are going to come to that.

Ambassador BROCK. What would you suggest?

Senator BRADLEY. I have about five suggestions that I will make to you in writing.

Ambassador BROCK. I would appreciate it very much. Thank you.

The CHAIRMAN. Mr. Ambassador, again I think we have underscored the intense interest the members of this committee have in not only the GATT Ministerial but the problem generally, and since this is sort of limited to the GATT Ministerial and a report of that meeting, as I understand, the thrust of your statements is that we are going to have a more aggressive policy. Would that be a fair conclusion, that in every area we intend to be more aggressive?

And I guess, following on that, if in fact that's the case, and that's what the message is from everyone on this committee, we should be more aggressive, do you have the negotiating authority to do that?

Ambassador BROCK. We are in reasonably good shape in terms of the adequacy of U.S. laws. I think Senator Mitchell's point about some reshaping might be important; I think Senator Danforth's bill that he and Senator Bentsen and others have sponsored could be helpful in terms of strengthening our negotiating hand.

But fundamentally the point is that the United States really has no choice. We either lead or the system is going to come apart at the seams. We don't have the luxury of sitting back and watching things happen; we have to make decisions and we have to take actions.

I think one additional point is that I do think it's time for us to reduce the level of our rhetoric. I don't like words like "trade wars" being thrown about quite so easily, because they do tend to color the tenor of the debate.

I think politically you recognize better than most that if you force some political leader in another country into a box where they either bow down to the United States or they don't, you put them in a position where they can't act.

And I think the point that Senator Danforth made was an important one, that maybe some action that is tangible, whether it is wheat flour in Europe or other actions, could be of greater consequence in solving some of these problems than an awful lot of throwing bricks across the backyard fence verbally.

The CHAIRMAN. Well, without asking what you may have in mind—and as I have indicated, I thought the wheat flour sale was an indication of an agressive policy—there are other areas. We have a lot of poultry, too, that make a nice package, and soybean oil, and other areas where in some cases I don't think it would do much good because other countries have larger surpluses than we have, as I understand in dairy products.

Again, if it's processed and we've created some jobs, then it's been helpful in at least two ways.

Also, Secretary Block and the President announced the so-called PIC program, and now we're working on, hopefully, early in the Congress an export PIC, where we can tell a buyer, some foreign country, that "If in fact you buy our commodity, then we'll be glad to add so much as a bonus."

Now, will that cause us any difficulty with GATT? I mean, nobody here would care, but would it cause any problem? [Laughter.]

Ambassador BROCK. No; and that's one of the problems with the GATT. There are no rules that deny us the competitive opportunity to subsidize for agricultural products. There are rules in the industrial area, but not in agriculture. We think that ought to change, but at the moment if others are going to engage in the practice, then we are going to have to compete.

May I suggest, Senator, that we be awfully cautious about a broad-scale program of that sort. If we are simply acting to defend our interests in a particular market on a particular product, that's one thing; but if we engage in an all-out attack and start what is described as a "trade war," it isn't the offender, the country that we are criticizing, that is going to be damaged, it's all the small countries that have these debts—the Brazils, the Argentinas, the New Zealands, the Australias—that are simply innocent bystanders in most of these things. And that's what I think we have to be very careful not to let happen.

The CHAIRMAN. You have talked about dissolution of GATT and trying to hold it together, and I think that was the one, I guess someone called it, "achievement" in Geneva. At least, GATT is still there.

Ambassador BROCK. It's still there, and it's doing a pretty good job in the area that it was originally designed to do. What we are trying to do is expand its mandate into new areas, and there is a lot of pain in that process.

But don't write off that organization. In the area that it was originally intended to serve, it has done a pretty decent job. In the trade and tariff area we have made enormous progress, and those concessions are our bindings, and they benefit this country.

We are doing a lot of business in the world that we would not be doing had the GATT not been there and resulted in the reduction in those tariffs that did constitute a trade barrier to our American product.

The CHAIRMAN. It's no great concern, then, that the Soviet Union, the PRC, and Mexico, and Saudi Arabia are not members? Does that cause any problem? They don't buy anything, anyway.

Ambassador BROCK. It would be helpful to them, at least some of them, to belong, but that's their decision. The GATT is working pretty well for the members that belong to it on those subjects that it was designed to work.

The CHAIRMAN. Did you get involved in any trade negotiations with the Soviet Union?

Ambassador BROCK. Yes; we haven't had an awful lot to talk about lately.

The CHAIRMAN. Well, we'd like you to talk more; I mean, that's going to be the second. But do you have some jurisdiction?

Ambassador BROCK. Partly; you know it takes two people to have a conversation, and they have got to indicate an interest in it, as well.

The CHAIRMAN. But you do have jurisdiction there?

Ambassador BROCK. Yes; I negotiated the extension of the LTA in 1981. There just hasn't been a whole lot that we had to discuss in the last few months.

The CHAIRMAN. I don't want to get into areas beyond the GATT, but that's a matter of some importance to a number of people on this committee, that LTA, long-term agreement.

Ambassador BROCK. I've noticed.

The CHAIRMAN. We would hope—it does take two to discuss these things. I don't know who has to initiate it. Maybe if you called and nobody answered, why at least——

Ambassador BROCK. The trouble with dealing with a nonmarket economy, Senator, as you know, is that too often, unfortunately, the decisions are made on uneconomic grounds but rather on political grounds. And the decision of the Soviets to support what happened in Poland and to do what they did in Afghanistan have constrained our ability to have constructive conversations in other areas.

The President has suspended talks on the LTA because of the infringement of human rights and freedoms in Poland, and that's an argument that I have found difficult to challenge. I happen to agree that we have a responsibility that goes beyond the LTA.

The CHAIRMAN. Senator Matsunaga?

Senator BRADLEY. Mr. Chairman, may I submit some questions?

The CHAIRMAN. Yes.

Senator BRADLEY. Thank you.

Senator MATSUNAGA. Briefly, Mr. Ambassador, do you believe that a President's authority to respond to unfair trade actions should be strengthened?

Ambassador BROCK. In a few areas we have a little fuzziness in the law, Senator. One of the problems that we are seeing develop now, particularly with the debt crisis, is the imposition of performance requirements, local content requirements, export performance requirements, things of that sort, and perhaps some improvement in that area, and services and investments—in other words, under the 301 process—could be helpful. That was incorporated into the Danforth legislation last year. I thought it would be helpful then; I still do. So some improvements in that area could be helpful, yes, sir.

Senator MATSUNAGA. Well, I am considering a legislative proposal to help the President forcefully respond to unfair trade actions and strengthen his section 301 authority, and I would appreciate your input and will be in touch with you.

Ambassador BROCK. I would like to work with you, Senator, and I would appreciate that. The only concern that I have had about any of these proposals, not yours but some of the other suggestions that have been made here, is the possibility of legislation mandating a course of action on certain numerical criteria. I think that denies us the opportunity to negotiate something to our advantage, and I would be very uncomfortable with that kind of an approach. But if you are improving the negotiating authority of the President, I think that can be helpful.

Senator MATSUNAGA. Thank you very much.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. No more questions. I have a statement, though, and other questions I can get later.

Senator BRADLEY. Mr. Chairman, one last question.

Mr. Ambassador, in the postwar period organized labor had been a strong supporter of a kind of open trading system, and part of the compact was that if a worker worked in an industry that found through increased competition that its workers were going to be unemployed, lose their jobs, be displaced, that the Government would try to assist them, and that was the origin of trade adjustment assistance.

Last year or the year before last we cut back dramatically on trade adjustment assistance. We are now at a time, as you know, where there are 11 to 12 million people unemployed, some of them because of trade competition, the bulk because of a bad economic circumstance in this country, but some because of trade competition.

Would you support a new measure for trade adjustment assistance to assist those workers who have lost their jobs because of competition from abroad?

Ambassador Brock. It depends on how it was styled, Senator. I think the complaint that I had and most others had on the old program was that it was an income maintenance program rather than a retraining program.

But I do think that your point is absolutely on the mark. One of the things that we have simply got to do in the next decade is to do a better job of upgrading our skill base, providing people with a broader range of skills so that they can move to those job opportunities that will give them the greatest economic growth path.

I think government, labor, business, States, localities, all of us have to do a better job in this area. We made a start last year with the job-training program. Some extension of that in the displaced worker area would be, I think, welcome. I'd like to see it. But I would hope that we go beyond that and look at the entire question of our skill base, because we are in a very fast-moving and flexible economic environment.

We are going to have a very different economy 20 years from now than that which we now have. Most of the jobs we now have are going to be replaced by better jobs in different industries, with a different level of skill. And we have to pay attention to our basic educational program, but more importantly we have to look at our adult education program, the skill-training program that is available to people who are working now, are already in the work force, and see that they have the tools with which to be personally productive.

Senator Bradley. Well, I certainly would support a very serious initiative on those worker-retraining measures, and much bigger, by necessity, than what has come forward from any administration to date.

But I think that you have to recognize that if you get workers, many of whom are senior workers who are still workers and only lose their jobs because of trade competition as opposed to bad economic times—I mean, in bad economic times the last hired is the first fired, which means younger workers in most cases.

In trade competition it is the industry itself which has lost its competition, which means that workers who have been there for 20 to 25 years lose their jobs, which means that they are 50 to 55 years old and are a little more difficult to retrain than someone who is 25 or 30.

Ambassador BROCK. I agree with that.

Senator BRADLEY. So I would hope that you wouldn't automatically say, "Yes, we want worker retraining, but somehow or other we have no program for those who are 50 and 55 and who face maybe 8 years left of work, and who have lost their jobs because of competition."

Ambassador BROCK. I can't disagree with that at all.

Senator BRADLEY. Thank you.

The CHAIRMAN. If there are no other questions, I might just say, finally, Mr. Ambassador, we do hope to be able to move with dispatch on the Caribbean Basin issue. Even though that wasn't a matter for discussion, I know it is a matter of great concern to you and to the President. We are hopeful that we can find some bipartisan support for the measure, and whenever you are ready, we are probably ready to start discussing that.

Ambassador BROCK. About 1 today, Senator, anytime from then on.

The CHAIRMAN. Well, let's make it a little later than 1. [Laughter.]

But I know it's a priority matter.

Ambassador BROCK. Yes, it is, and I appreciate your interest.

The CHAIRMAN. I know Senator Matsunaga has been very supportive, and I've had indications from other Senators that maybe with some change they could support it.

Thank you very much.

[Whereupon, at 12:09 p.m., the hearing was concluded.]

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT

BY

SENATOR J. JAMES EXON

(BEFORE THE) for the Record of the

SENATE FINANCE COMMITTEE

JANUARY 25, 1983

It is time for the United States to develop a realistic, updated trade policy that will be effective in giving U. S. industry and agriculture access to foreign markets now closed due to nontariff barriers and other unfair competitive practices employed by foreign nations. The General Agreement on Tariffs and Trade (GATT), which has been the principal instrument for free trade since its inception in 1948, seems unable to make further progress under present conditions of worldwide recession and international financial strain. The United States must therefore look for new ways to convince other governments to abandon the short-sighted, unilateral policies that distort trade and provoke retaliation. Only by such action can we hope to return to an effective program of multilateral trade liberalization through the GATT and other institutions -- that will again bring benefit to all nations.

Over the three and one-half decades of its existence, the GATT became one of the world's most successful multilateral institutions. It was the instrument for unprecedented reductions of tariffs worldwide, and contributed immensely to an unparalleled era of economic growth and prosperity. It certainly demonstrated that multilateral negotiations are the most efficient as well as the most equitable way to achieve freer trade.

The current problem is that other countries have consistently and unilaterally tuned their trade policies to short-run national economic and political objectives, such as preserving jobs, accelerating the growth of agriculture or targeted industries and improving their foreign exchange positions. This has been done through the adoption of nontariff barriers, which include quotas, local content laws, government procurement policies and standards that artificially restrain imports and subsidies and tax measures that artificially increase exports. These antitrade measures exist in a virtually limitless variety of forms, since they can be embodied in monetary, tax and fiscal systems, and in a wide range of laws and regulations affecting business and in business practice itself. These practices unfortunately were ignored early when they probably could have been checked and have now flourished to where these protectionist policies are defended as "historic" and therefore unchangeable by many nations.

Japan's agricultural import barriers illustrate the complexity of the problem. In order to protect its high-cost rice growers, that country not only subsidizes the production of rice, and imposes quotas on its importation, but seeks to prevent the substitution of wheat for rice. To do this, it has established quotas for wheat imports on top of which are then levied stiff surcharges that double the cost of the imported wheat. Japanese beef producers are protected by a similar system. Both sharply limit the sales potential in the Japanese market for U. S. agricultural products.

The "Common Agricultural Policy" of the European Community is another good example. This coordinated system of support buying, common pricing, community preference arrangements and import quotas -- originally intended to improve the Community's self-sufficiency in agriculture -- now subsidizes the exportation of its overproduction of grain. The market for U. S. grain in Europe has dwindled and now U. S. agricultural exporters must compete -- sometimes at lower than prevailing market prices -- against subsidized European commodities in third world countries in order to hold on to export markets. Additionally, U. S. sales of beef to Common Market countries are restricted by stringent labeling, health and sanitary requirements. Here is still another documentation that unrealistic "rules and regulations" and well-devised bureaucratic red tape are oftentimes more effectively employed to block or discourage imports than seemingly the GATT treaties would allow.

Other unfair practices that block U. S. trade and investment include government restrictions on services exchanges (e.g., airlines, shipping, insurance and telecommunications services) controls on direct investments (e.g., controls on sectors, degree of foreign control, earnings repatriation, export requirements), export credit subsidies, and the provision of special benefits to industries that export. The United States has tried, unsuccessfully, for years to pare back the widely used international practice of government subsidization of export credits on "big ticket" items or at least to gain agreement on minimum permissible rates. Subsidized export credit competition, however, continues -- exacerbated oftentimes by foreign "blended credit" offerings in which foreign governments work with their suppliers interested in important projects in developing countries to develop packages of commercial, concessional and especially low development credits which U. S. bidders cannot match.

The effect of such practices is that governments have displaced market forces in determining the direction and content of trade and that nontariff barriers have replaced tariffs as the principal instruments of trade distortion. In the long-run, nontariff barriers intensify inflation by reducing competition and shielding wages and profits from market forces, but in the short-run foreign economies are protected and their export bases expanded.

The United States, which employs relatively few such restrictions, however, is comparatively at a disadvantage. U. S. markets are highly accessible to foreign exporters and investors, but U. S. exporters and investors do not have equivalent access to their markets. Under these conditions, there is little incentive for our trading partners to abandon restrictive measures and return to trade liberalization. The contrary appears to be the case.

The GATT attempted to address the nontariff barrier problem during the Tokyo Round, which ended in 1979. It developed six pioneer "codes," covering subsidies, countervailing measures, antidumping, government procurement, customs valuation and import licensing, as well as agreements covering trade in civil aircraft, GATT enforcement, bovine meat and dairy trade. Although these were landmark achievements, adherence is voluntary, enforcement provisions are weak, and they merely touch the tip of the iceberg in terms of coverage.

Concerned about the pressures on the U. S. economy engendered by the proliferation of nontariff barriers and uncompetitive trade practices, and the retaliatory protectionist sentiment they provoke, the United States sought to build on the foundation of the Tokyo Round at the recent GATT Ministers' meeting, held in Geneva on November 24-29, 1982. At that meeting, which was intended to set the organization's priorities for the 1980s, the United States was unsuccessful in gaining any real recognition of its trade needs.

The European Community refused to consider paring back the agricultural export subsidies that place U. S. suppliers at a disadvantage in third world markets; newly industrialized countries refused to consider reducing import barriers; agreement concerning a workable safeguards code again failed; the U. S. bid to include studies of problems relating to investment and high technology on the GATT's work program was rejected, and the proposal for a work program to investigate liberalizing trade in services was watered down. The newly industrialized countries, led by Brazil, who have long been beneficiaries of the U. S. generalized system of preferences under which they receive the benefit of most-favored nation tariff treatment and other programs, such as guarantees for U. S. investment in developing countries, moreover proposed relocating discussions on services trade from the GATT to the United Nations Conference on Trade and Development.

Under these circumstances, the U. S. share of the world market can be expected to continue to shrink, and the U. S. trade deficit to continue to grow. Traditionally healthy elements of the U. S. balance of payments, our agricultural exports and services, are threatened and their surpluses are narrowing. Even the margin on investment income from abroad, built up over decades, is being offset by repatriations of earnings from foreign investment here.

The outlook is not good and will not improve until the United States acts to improve it. Trade policy should be reassessed, options examined, unified and a course charted, and this should not be done in a vacuum. To be effective, trade policy must be closely coordinated with domestic economic policy. It should also be long-term and stable, so that foreign buyers will believe that their U. S. suppliers are reliable and that alternative sources of supply are not needed. One policy lesson should be that no segment of our exporting community, such as grain producers, should be singled out to bear the brunt of embargo or other political action.

Another important lesson of recent years is that sharp swings in monetary policy and other controls on the economy must be avoided. The current high value of the dollar has had serious adverse consequences for the U. S. trade position. It has eroded foreign demand for U. S. exports, aiding competitor suppliers of agricultural products to build worldwide markets, while increasing U. S. demand for relatively inexpensive imports from abroad. It also has provided foreign governments that do not wish to dismantle their trade barriers with a convenient reason to postpone action. These consequences are a direct result of the 1979 decision of the Federal Reserve Board to dampen inflation by curtailing the money supply -- which in turn drove up interest rates, attracting high volumes of foreign investment to this country, and bidding up the value of the dollar relative to other currencies. It seems evident that the stability and growth of U. S. overseas markets are unnecessarily jeopardized by such unilateral actions.

Partial remedies are easily devised and supported. But a piecemeal approach will not work. The GATT should not be abandoned, but it may need to be supplemented until the dangerous trends of the past few years are reversed.

For these reasons, I applaud the President's plan to convene a Domestic and Economic Trade Summit. I hope the panel will be drawn on a truly bipartisan basis from our country's leaders -- representing government, business, farming, labor and academia. Their task should be to draw up a comprehensive, coordinated economic and trade agenda for this nation during the 1980's. That agenda should address means of improving the competitiveness of our farm sector and ailing industries, and stimulating innovation and high technology, as well as addressing the problems of technology transfer, increasing access to foreign markets, eliminating domestic disincentives to exporting and dealing with foreign predatory pricing and uncompetitive export credit arrangements.

Statement by Members of the Advisory Trade Panel
of
The Atlantic Council of the United States
on the
Recent Ministerial Meeting of the CONTRACTING PARTIES
to the
General Agreement on Tariffs and Trade

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Submitted to the Senate Committee on Finance in connection with its Hearing

Of January 25, 1983

We welcome this opportunity to comment on the results of the recent GATT Ministerial meeting as well as on the stated objective of the Senate Finance Committee to "assess the prospects for continued active participation by the United States in the GATT."

It must be said at the outset that this meeting took place at a time when all countries, almost without exception, were in serious economic difficulties. Many countries were preoccupied with domestic concerns. In this context, the Ministerial meeting did not realize the high hopes held for it by many informed citizens in the United States. Yet it should also be said that to a considerable extent these expectations were not well founded. Although extensive international preparations had been made for the meeting at the technical level, understandings at the political level are essential if successful negotiations are to be undertaken. Without such understandings, at least in principle, long experience has shown that progress in dealing with difficult and complex trade issues is unlikely.

We do not believe that failure to achieve some of the aims of the United States at the meeting -- for the agenda was made up primarily of proposals initiated by the United States -- should be a source of discouragement or that the positive results of the meeting should be disparaged.

American farmers naturally hoped for a reduction, preferably the elimination, of the export subsidies of the European Economic Community. Yet agricultural protection, of which export subsidies are only one part, is deeply rooted not only in Europe, where the Common Agricultural Policy is regarded as vital to the existence of the Community itself, but also in the United States whose agricultural trade barriers are contrary to the essence of GATT but are largely legally exempt from GATT rules by a special waiver reluctantly granted to us many years ago. It is important that the world's agricultural problems continue to be addressed, and we are gratified that the GATT Ministerial Communique recognizes this.

Although the present provisions of the GATT regarding agriculture are inadequate, they do provide in Article XVI and in the subsidies code agreed during the Tokyo Round a basis for the assertion by the United States of rights with regard to export subsidies granted by the European Community which gain for the Community more than an equitable share of world markets. The Panel is encouraged to feel that these provisions allow for examination by the United States and the European Community of Community practices adversely affecting our exports and for eventual resort to the GATT system for redress if these consultations do not prove fruitful.

What is needed, however, is a more comprehensive approach to agricultural trade problems. If new substantive engagements in agriculture were to be undertaken, they would, of necessity, require new U.S. commitments. It should be noted that agricultural trade barriers, whether in the form of import quotas, fees, or levies or in the form of subsidies to exports, are usually the consequence of internal agricultural programs and policies designed to lift producer prices above the world market level, and often even above levels that would clear the protected domestic market. So far, neither the United States nor the European Economic Community has been willing to discuss these root causes in both of their economies.

We are encouraged that the Agriculture Committee established by the Ministerial Conference will address this problem with the objective of achieving greater liberalization of agricultural trade. More extensive comments and suggestions for dealing with the agricultural problem will be found in the Advisory Trade Panel's GATT Plus (pp. 31-39), a policy paper issued by the Atlantic Council early in the Tokyo Round Multilateral Trade Negotiations.

Some disappointment has been expressed because the GATT Ministerial meeting did not decide to begin multilateral negotiations for the reduction of barriers to the exchange of services, a sector which has become highly important to the American economy. The subject of governmental barriers to services is new to GATT. It is now time to begin the process of establishing an agreed international data base from which judgments can be drawn as to the desirability and feasibility of multilateral negotiations leading to a code of rules on services paralleling the GATT rules on merchandise trade. The GATT Ministerial meeting took a necessary first step toward the establishment of a useful data base.

We believe that the GATT Ministerial meeting took a potentially important step toward improving GATT's "safeguard" provisions, long recognized as inadequate, by calling for the completion of new negotiations for a Safeguard Code and by establishing certain key elements to be included in it. The detailed views of the Advisory Trade Panel regarding the content of new safeguard provisions, including the circumstances under which safeguarding action might be taken on a selective, or discriminatory, basis, are set forth in its report Some Unfinished Business of the Tokyo Round Trade Negotiations: A New Safeguard Code, published as a policy paper of the Atlantic Council in November 1981.

We also welcome the strong reaffirmation by the GATT Ministerial meeting of the intentions of contracting parties to resist protectionist measures in the current crisis of the world economy and to work toward the improvement and strengthening of GATT. We note in this connection the statement of the Senate Finance Committee that it will seek "to assess the prospects for continued active participation by the United States in GATT." We trust that such an assessment will lead to only one conclusion: that the United States, while recognizing GATT's imperfections, will reaffirm adherence to its GATT commitment and will continue its active leadership in improving GATT's rules and institutional arrangements.

Without the United States, GATT would collapse. Protectionist actions would be taken in many quarters, retaliations would follow, and the international trading system would become chaotic. As a result, every segment of the economy of the United States would suffer. Moreover, without the GATT system or its equivalent, it is hard to see how the International Monetary Fund and the World Bank could continue to function effectively -- international and even domestic monetary systems would then be undermined.

There is an even wider and more dangerous dimension. With the Western world in economic shambles and the industrial democracies at each others' throats in trade and financial markets, our security alliances including NATO in Europe and our security arrangements with Japan -- could hardly be expected to endure.

These are some of the observations that occur to us in studying the Communique issued at the close of the GATT Ministerial meeting and the subsequent formal statements made by Ambassador Brock and by the European Economic Commission. We hope to examine the results of the Ministerial meeting in greater depth after more information has become available.

Members of the Advisory Trade Panel

MEMBERS OF THE ADVISORY TRADE PANEL
OF
THE ATLANTIC COUNCIL

CHAIRMAN:

John M. Leddy, former Assistant Secretary of State and of the Treasury; former Ambassador to the Organization for Economic Cooperation and Development (OECD).

RAPPORTEUR:

Jacques R. Reinstein, former Minister of Economic Affairs, U.S. Embassy, Paris; former U.S. Coordinator, Second United Nations Development Decade.

MEMBERS:

John W. Evans, former Government Official and U.S. Representative to the General Agreement on Tariffs and Trade (GATT).
Isaish Frank, Professor of International Economics, Johns Hopkins University; former Deputy Assistant Secretary of State and Executive Director, President's Commission on International Trade and Investment Policy.
Theodore R. Gates, Economist; former Assistant Special Representative for Trade Negotiations.
Mortimer D. Goldstein, Economist; former Chief of International Finance, Department of State.
Seymour J. Rubin, Executive Director, American Society of International Law; former Government Official.
Fred H. Sanderson, Senior Research Fellow, The Brookings Institution.
J. Robert Schaetzel, former Ambassador to the European Communities.
Philip H. Trezise, The Brookings Institution; former Ambassador to the OECD and Assistant Secretary of State.
Leonard Weiss, International Economics Consultant; former Director, Office of International Trade and Finance, Department of State.
Alan M. Wolff, Partner, Law Firm of Verner, Liipfert, Bernhard & McPherson; former Ambassador; former Deputy Special Representative, Office of the U.S. Trade Representative.

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consumers CWT for world trade

STATEMENT TO THE SENATE FINANCE COMMITTEE

SUBCOMMITTEE ON INTERNATIONAL TRADE

January 25, 1983

Full Committee Hearing on the
General Agreement on Tariffs and Trade

(Statement submitted by Consumers for World Trade, for
inclusion in the printed record of the hearing.)

Consumers for World Trade (CWT) is a national, nonprofit, membership organization, established in 1978. CWT supports expanded foreign trade to help promote healthy economic growth; provide choices in the marketplace for consumers; and counteract inflationary price increases. CWT believes in the importance of increasing productivity through the efficient utilization of human and capital resources. CWT conducts its educational programs to keep American consumers informed of their stake in international trade policy and speaks out for the interests of consumers when trade policy is being formulated.

An appraisal of the results of the GATT Ministerial is likely to vary with each appraiser and his or her expectations of what the meeting would achieve. Although the U.S. Agenda in preparation for the meeting appeared to be a positive and optimistic step towards an improvement and enlargement of the international system, was it indeed a realistic one, at a time when all world economies are under considerable stress and all trading nations are under great pressure to protect their domestic industries?

At first glance, the inability of the GATT signatories to come to a meaningful agreement on agricultural trade, a safeguards code, dispute settlement procedures, trade in services, investments and high technology prompted many to consider the Ministerial an almost total failure -- deserving of a grade "C" as stated by Ambassador William Brock in an interview right after adjournment. A review of the communique, however, allows for some hope that the meeting, though ill-timed, could serve as a basis for future efforts to maintain an effective international trading system.

Let us consider the following points:

(1) The contracting parties did reaffirm their commitment to the GATT and to make efforts to ensure that their trade policies were consistent with GATT rules. Although "making efforts" is a term open to interpretation, it does represent an acknowledgement of the necessity for a GATT and for international rules and principles.

(2) They addressed themselves positively to the North-South issue calling for improvement of the Generalized System of Preferences and Most Favored Nation treatment.

(3) They agreed that it was necessary to avoid obstructions in the process of dispute settlement.

(4) They established studies and work programs for action at the 1983 and 1984 sessions, on safeguards, agriculture, textiles, and services.

Although these agreements fall short of the positive actions it was hoped would be taken at the Ministerial, they demonstrate, at the very least, that none of the participating countries were ready to bury the GATT sytem and proceed in a solely bilateral or unilateral fashion in their respective trade policies.

Of course, much work needs to be done to capitalize and build upon whatever affirmation of the GATT system did come out of the meeting. CWT believes that the United States, as one of the major trading countries in the world, should take the lead in demonstrating its commitment to the GATT and in promoting the strengthening of the institution and of the system. It can do so by fully utilizing the GATT mechanism for dispute settlement and import relief procedures, by actively participating in the work programs and studies called for in the communique and by scrupulously avoiding any violations of GATT rules in the conduct of its trade policy.

STATEMENT OF
THE UNITED STATES COUNCIL FOR INTERNATIONAL BUSINESS
ON
AN ASSESSMENT OF THE GATT MINISTERIAL MEETING
BEFORE THE
SENATE FINANCE COMMITTEE
JANUARY 25, 1983

The United States Council for International Business, a policy-making association representing the interests of its 250 corporate members on international trade and investment issues, is pleased to present its views on U.S. trade policy in the aftermath of the GATT Ministerial. The strong support of this Committee for, and interest in, efforts to establish a vigorous U.S. trade policy has greatly enhanced the legislative role in that process.

As the U.S. affiliate of the International Chamber of Commerce, our objective is to ensure the most open trade system possible, and, in our advisory capacity with the GATT, OECD, IMF and E.C., we have worked with national representatives from over 50 countries to achieve this end. We are concerned about erosion of support for the GATT system, and the increasing efforts by many of our trading partners to undermine its authority. There are several important areas where we feel the GATT must be strengthened. These include: successful completion of a safeguards clause; an active work program to expand GATT authority over international trade in services;

instituting a binding dispute settlement mechanism; and a program to address the trade problems associated with currency misallignments.

While the GATT Ministerial failed to accomplish all that was hoped for, the meeting's intensity reflected a deep concern about world trade. With deficits rising, real interest rates high, unemployment up, and growth down, protectionism is on the rise everywhere. Alarmed by rising imports and frustrated by the GATT's failure, many of our trading partners have tried to insulate their economies from outside competition. Whether this means imposing performance requirements, devaluing one's currency, or negotiating voluntary restraint agreements, it all comes down to the same thing---not playing by the rules of the game. It has been estimated that about 25 percent of the industrialized nations' manufacturing imports are traded outside the GATT system, and three-quarters of world trade is now conducted on restrictive terms inconsistent with the GATT's cornerstone principle of nondiscrimination. Given the increasing levels of worldwide unemployment and the widespread resort to protectionism, the U.S. Council recommends the following actions to liberalize world trade and stimulate economic recovery.

- SAFEGUARDS

The most critical issue to emerge as "unfinished business" from the Tokyo Round of multilateral trade negotiations is that of safeguards. The existing rule on safeguards (Article XIX), which allows countries to restrict imports when serious injury to domestic producers has occured or is threatened, has been largely ignored since the GATT's founding in 1947. Europeans in particular have avoided Article XIX, opting instead for "orderly marketing" and "voluntary" export agreements. This increasing resort to sectoralism has weakened the safeguard mechanism and fragmented the multilateral system into rival trading blocs. In short, existing international standards, procedures, and penalties for restrictive trade actions are largely ineffective.

The U.S. Council believes that revision of Article XIX to strengthen the discipline against restrictive measures is an essential objective. Systematic increases in the use of safeguards, whether through Article XIX or other measures, has a severe and disruptive impact on world trade, and does not necessarily remedy the situation which gave rise to it. A multilaterally negotiated safeguard code should clearly delineate those conditions under which a government may take safeguard actions, and ensure that these actions were limited in scope and duration. Moreover, it should be necessary to demonstrate that exceptionally large and rapid increases of imports were the primary cause of injury and that, without relief, the affected industry could not adjust. The U.S. Council strongly opposes the selectivity concept, whereby only the imports of one particular country are targeted for restriction. We also believe that any measure should be subject to prior consultation with both domestic interests and trading partners who are, or might be affected.

The failure of the GATT Ministers to agree on specific conditions under which countries may restrict imports represents a form of implicit sanctioned protectionism. In the absence of multilateral disciplines, governments have indiscriminately protected industries under the safeguards pretense. We submit that a safeguards code should be a top priority for U.S. negotiators in the coming months, as this reaches to the core of protectionism. We are in the process of forumulating policy recommendations at the International Chamber of Commerce, and would be pleased to offer our assistance in this regard. We recognize however, it is the attitudes of governments and their willingness to accept international discipline that is decisive in any debate about trade policy.

- DISPUTE SETTLEMENT PROCEDURES

Closely related to the safeguards issue is that of dispute settlement. While some progress was made in tightening up dispute settlement procedures, the GATT Ministers failed to address two fundamental shortcomings. First, the procedures are unacceptably slow and subject to frequent delays. When political will is lacking, negotiating parties stall and deadlines are missed. This problem has been partially ameliorated by the Ministers' decision to extend the settlement deadline. The U.S. Council applauds this decision but we feel more needs to be done. Second, even if a final decision is made, that decision can be blocked by either party. This obviously weakens the GATT's role in settling disputes, and has itself become a point of consternation in U.S.-European trade relations.

The U.S. Council has long advocated a stronger role for the GATT in settling disputes. In our view, GATT decisions should be binding to all parties who consent to have their complaints reviewed. Greater resources should be devoted to consultation and conciliation, and the GATT Secretariat should be strengthened so that disputes are quickly resolved. In addition, a permanent surveillance body should be established to meet regularly with the purpose of reviewing the impact of national policies on international commerce. Its continuous work would be based on notification to it of national policies which have potential international implications. This body would publish a regular report of its reviews, facilitating rational public assessment of policies in their total context, both national and international.

We are not suggesting that this body write new rules on what is or is not permissible under international law. As we have mentioned, the attitudes and approaches of governments are more important determinants of conduct than formal rules. Such a body could facilitate the establishment of a system which covers not only disputes but also notification, surveillance, consultation, and conciliation. We believe that for the next few years there will be substantial causes of international friction over trade. These disputes can best be mitigated through the GATT's multilateral procedures, but only if those procedures are streamlined. The objective should be to make the procedure sufficiently expeditious so as to produce a sense of active participation by contracting parties.

- INTERNATIONAL TRADE IN SERVICES

Seven-out of ten Americans now work in the service industries, and 65 percent of our GNP is services-related. As the world's largest exporter of services, we can ill afford to keep the services trade outside of the international trading order.

The U.S. Council has vigorously supported efforts to broaden the GATT to include trade in services, and we have testified accordingly on numerous occasions. We recognize the difficulties which arise from this proposal, and encourage the use of traditional negotiating approaches including but not limited to: initiatives in the OECD Invisibles Committee and other OECD Committees dealing with specific service industries (Committees on Insurance, Information, Computer and Communications etc.); bilateral consultations through normal diplomatic channels; renegotiating bilateral agreements on services; and initiatives in existing organizations serving particular service industries.

The GATT Ministers could not as we had hoped, agree on a specific work program, but they did recommend that interested parties examine the issue for further consideration at the 1984 GATT Council meeting. We strongly urge that this opportunity for multilateral cooperation not be lost. The U.S. Trade Representative's Office, and Departments of State and Commerce should continue to develop a data base for analyzing barriers to trade in the service industries. This will greatly facilitate future negotiations on rules and procedures for international service transactions in a trade policy framework. Also, we should work to afford services its rightful pace in U.S. trade policy by broadening the President's mandate to negotiate on services.

Trade policy officials in most countries have little responsibility for, and expertise in service industries. Some have actively opposed the U.S. services initiative. It is important to realize that little will be done without vigorous U.S. leadership. Negotiations on service trade issues will have to be preceded by extensive international consensus-building. The U.S. Council played a pivotal role in getting the International Chamber of Commerce (ICC) to adopt a Statement on the Liberalization of Trade in Services.

Adopted by the ICC Executive Board in August 1981, the statement is the product of an international body of experts drawn from a wide range of service industries in countries like Sweden, Germany, India, Britain and the Netherlands. We enclose the statement for your reference.

- CURRENCY MISALLIGNMENTS

Continuing wide movements in exchange rates contribute to the present malaise in world trade. International trade cannot be separated from larger problems in the international monetary system, for changes in exchange rates can do more to correct imbalances in world trade and to ward off protectionism than even the broadest multilateral trade agreements. It is important that U.S. trade policy reflect these considerations.

Some have argued that the GATT might be an appropriate vehicle for handling trade complaints where a devaluation gives a country an unfair trading advantage. We think this suggestion merits attention, because the GATT has in place mechanisms for consultation and dispute settlement that should be upgraded. How this might work in practice remains unclear, but the GATT has the advantages of an established and viable multilateral forum. GATT discussions on the extent to which exchange rate movements can affect relative price competitiveness would be an important first step in alleviating the problem.

Others have argued for a stronger role for the International Monetary Fund (IMF) in supervising currency movement. Under the terms of IMF membership, countries may not manipulate exchange rates to gain an unfair competitive advantage over other members. It is extremely difficult to determine if countries such as Japan deliberately keep the value of their currency artificially low, but the IMF should be the lead organization in making such determinations. As an international financial institution, the IMF is better suited to deal with the problems associated with currency fluctuations.

Finally, it has been, argued that the United States should join Japan and the European Community in a looser version of the "floating snake." Under this system currencies may fluctuate within predetermined limits, but none may shift independently of the others. Predictability is enhanced and trading partners can accurately determine the value of goods and services exchanged.

The U.S. Council submits that all of these proposals merit attention. We have a very real problem but few solutions. The substantial overvaluation of the dollar, in terms of its competitive relationship vis-a-vis other major trading countries, creates fundamental problems for trade expansion, slows recovery, and stifles growth. A number of factors have contributed to these problems, and after nearly a decade they seem to be fairly deep-rooted. New challenges have emerged in the effort to maintain an international monetary system that promotes sound economic growth. To stop overvalutations of the dollar, governments must learn to coordinate their monetary policies, which may mean establishing a combined target for monetary growth in the largest countries.

CONCLUSION

There has been a sudden and rather belated recognition that trade relations are a key factor in international affairs, with significant effects for world economic activity, domestic economic policies, and the standard of living for people everywhere. The GATT Ministers were faced with the challenge of restoring the rule of law to international trade relations and halt the slide into protectionism, or watching the multilateral trading system fragment into rival trading blocs and anarchy. This challenge has been complicated by new developments: fluctuating and unpredictable exchange rates; the complex new relationship between trade, monetary, and industrial policy; the growing impact of government intervention on other nations' trade and investment policies; the lack of a binding dispute settlement mechanism and safeguards code; and the lack of a program to cover new areas in trade policy like services and investment.

Our trading dilemma results from a myriad of problems, not the least of which is that governments increasingly treat foreign goods as a threat to jobs. Short term protectionism appeals to the emotions and provides quick relief for a few industries, but the price we all pay is prolonged recession, lower quality goods at a higher price, and the deterioration of a trading system that has contributed to unprecedented growth and development for nearly 35 years.

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COMMISSION ON INTERNATIONAL TRADE POLICY AND TRADE-RELATED MATTERS

POSITION PAPER ON LIBERALISATION OF TRADE IN SERVICES

Statement adopted by the Commission. At its meeting on 30 September, the Executive Board of the ICC granted the Secretary General advance authorisation for the immediate release of this document.

1. In almost all industrial countries and in much of the developing world the service sector has significantly increased in importance over the last thirty years. By 1978 the contribution of the service sector to Gross Domestic Product was at least as important as that of the industrial sector for nearly all GATT contracting parties, and its importance as a source of employment increased accordingly. As with merchandise, a large part of this service activity does not give rise to international transactions, but in many industries international business has also greatly expanded, and now represents a considerable share in trade flows. Between 1967 and 1975 world trade in services increased by about 6 per cent per annum in real terms, and by 1975, exports of services represented over 20 per cent of total exports of goods and services for all countries.

2. Much of this service activity is not conducted purely for its own sake, but is also an essential adjunct to international trade in raw materials and manufactured goods. Though many of the impediments to a free flow of goods have been removed or significantly reduced by the rounds of multilateral negotiations under the auspices of the GATT, many service industries, including, for example, not only the more traditional areas of construction and engineering services, insurance, banking and financial services, legal and medical services and transport,

but also tourism, franchising, information and data services, leasing and consultancy, still confront severe government-imposed obstacles to their international operations. These restrictions not only reduce the efficiency of services trade, but also produce unfair competition among the service industries of different nations, and introduce cost distortions into trade flows of goods. At present these restrictions cannot always be identified or remedied. This is partly because as yet there does not exist an agreed international standard for the treatment of services, which makes it difficult to define the remedies appropriate to resolving problems of unfair competition.

3. A progressive and comprehensive liberalisation of international trade in services is now therefore timely and necessary to reduce the present distortions in such trade. Liberalisation of services trade, permitting greater access for service industries to exercise their activities in foreign markets would act as a stimulus to international trade, and would also often have an innovative effect in local service industries and thus contribute to economic development. The International Chamber of Commerce, with members in over one hundred countries, therefore urges governments of both developed and developing countries to respect and fully implement existing agreements providing for the liberalisation of services trade, and to begin the preparations necessary for mutually advantageous negotiations to reduce impediments to international trade in services on a multilateral and, wherever possible, reciprocal basis.

4. Circumstances in individual countries and existing arrangements in some service markets will influence the pace at which liberalisation can be pursued. At least initially, therefore, the liberalisation of services trade implies:

i) that all such trade be conducted according to the principles of fair and open international competition;

ii) that internationally traded services originating from any country be subject to equal treatment by the recipient nation (the most-favoured nation principle);

iii) that, where they are not in the wider interests of the service user, restrictions on the ability to purchase services across national borders be reduced in as far-reaching and as reciprocal a manner as possible;

iv) that the above principles, and any departures from these principles which are deemed necessary during the transition to a fully liberal services trade system be subject to periodic review and negotiation; and

v) that new limitations to the international free movement of services be avoided as far as possible, and that if a situation were to arise calling for further restrictions, such restrictions be temporary and subject to prior consultation and negotiation.

5. The ICC welcomes the efforts made in a number of circles to compile information on the trade effects of restrictions on international service transactions, and on specific problems faced by individual industries. It hopes that such efforts will continue. However, the ICC believes that, in addition, it is now necessary to develop practical methods and procedures to eliminate the major impediments to international trade in services, or, at least, to greatly reduce their effect.

6. In spite of the differences in activity among the different service industries with international interests, the ICC believes that the underlying principles of liberal trade and fair competition are common to all. Thus, although the impediments to liberal trade in individual service industries might appear different in their detailed application, it is possible to classify them as departures from these underlying principles, in terms of major non-tariff barriers to trade applying to all industries. The ICC therefore puts forward such a classification, which is not exhaustive, which might profitably be used in conjunction with the data at present being compiled in several quarters to develop a framework of obstacles to trade in services which would then serve as a basis for a negotiated liberalisation of this field. (This classification is included as an annex to this document).

Recommendations for Action

7. In the long term, any effective and comprehensive liberalisation of international trade in services must be conducted on a multilateral basis. The extension of the GATT to include trade in services represents the most effective method of achieving this liberalisation for the following reasons:

i) International trade in goods - which is already covered by the GATT - and international trade in services are governed by the same underlying economic principles, and in many cases the impediments involved - subsidy and regulatory practices, government procurement procedures, technical standards and licences - are similar. The impediments which are more specifically related to trade in services can still be regarded as non-tariff barriers, and should be tackled in a similar manner to the non-tariff barriers discussed during the Tokyo Round.

ii) The application of the most-favoured nation principle espoused in the GATT ensures that the benefits from liberalisation will accrue to all nations.

8. The ICC therefore calls upon all governments to accept that the principles espoused in the GATT system for the regulation of world trade be extended to cover trade in services, and urges them to begin preparations towards multilateral negotiations to reduce existing impediments to international trade in services and to create an accepted framework for the conduct of liberal trade in services. There have been proposals for a Special Session of the GATT Contracting Parties in 1982, at which trade in services would be one of the items for discussion, and this initiative is welcomed by the ICC. The classification of non-tariff barriers to trade in services set out in the annex demonstrates that many of the obstacles to services trade are similar in principle for many industries (eg. the existence of subsidies which distort competition, administrative impediments to operation, etc.) and it is therefore possible for the principles of a liberal framework for services trade to be negotiated on an overall multilateral basis, in a similar fashion to the negotiation of the principles espoused in the Codes on non-tariff barriers agreed during the Tokyo Round. This is but a first stage, however,

and does not imply that the application in practice of the regulatory measures required for liberalisation will be necessarily of an across-the-board character, as in certain instances the regulation resulting from negotiated agreement on the basic principles for liberalisation will have to be tailored to meet the specific operating characteristics of the different industries involved.

9. However, the acceptance that the principles espoused in the GATT should be extended to cover trade in services does not imply the exclusion of other fora from this process of liberalisation in the short-term. Important work for trade in services has already been undertaken in other circles, notably the Declaration and Decisions on International Investment and Multinational Enterprises adopted by the Governments of the OECD countries in 1976, and the contribution of agreements in such fora to the liberalisation of trade in services should not be underestimated or ignored. The ICC welcomes the initiative taken in the meeting of the Ministerial Council of the OECD of June 1981, where

> "Ministers expressed the wish that the ongoing OECD activities in the field of services be carried forward expeditiously. They agreed that, in the light of the results of these activities, efforts should be undertaken to examine ways and means for reducing or eliminating identified problems and to improve international co-operation in this area".

In addition, in the absence of overall multilateral agreements, a large measure of liberalisation could also be achieved in the shorter term through a series of industry-specific negotiations. Certain governments are already committed to a liberalisation of trade in services, and the ICC encourages them to enter and expand negotiations with other governments. In addition, certain industries are already regulated by intergovernmental or inter-industry agreement, and initial liberalisation measures might be negotiated using the existing regulatory institutions.

10. The ICC fully recognises that an overall multilateral agreement will require a lengthy period of comprehensive preparation. Therefore, it recommends two specific issues which might be tackled immediately to produce solutions in the near future as a first stage in the progressive liberalisation of services trade. These recommendations do

not imply, however, that other obstacles to services trade are not of equal importance to certain industries, and the ICC hopes that, wherever possible, advances in the liberalisation process might also be made in these other areas at the same time.

i) Government procurement

An Agreement on Government Procurement was negotiated during the Tokyo Round of Multilateral Trade Negotiations under the auspices of the GATT. The Agreement, which entered into force on 1 January 1981, contains detailed rules on the way in which tenders for government purchasing contracts should be invited and awarded. It is designed to make laws, regulations, procedures and practices regarding government procurement more transparent, and to ensure that they do not protect domestic products or suppliers, or discriminate among foreign products or suppliers.

At present the Agreement applies primarily to trade in goods, as services are only included to the extent that they are incidental to the supply of products and cost less than the products themselves. However, the Agreement specifically mentions the possibility of extending its coverage to services contracts at an early date.

The ICC therefore urges all governments to respect and apply fully the existing Agreement, and calls upon contracting parties concerned to prepare negotiations, taking into account the experience of the present Agreement, with a view to including services procurement in the Agreement, and to make the list of government entities which would be covered by the Agreement as wide as possible.

ii) Legal establishment and access to markets

The rights of legal establishment and of access to foreign markets concern firms trading in goods and services alike, but are of particular importance to many service industries, owing to the nature of their business. As a first step in liberalising services trade, therefore, it is important that governments extend national treatment for establishment and market access to all firms wishing to establish an operation within their national boundaries. This would best be achieved by means of an agreement including provisions that

1. Where the applicant firm meets the local legal requirements for the establishment of a company in the host country (reasonable allowance being made for the different legal forms under which enterprises may exist), such establishment should be freely granted.
2. The legal requirements for establishment apply equally to domestic and foreign applicants.
3. Information on such legal requirements be freely available.
4. The application procedures be implemented in a non-prejudicial manner.
5. Access to the domestic market for any firm should not be impeded by the imposition of discriminatory restrictions on the size of the firm or the level of sales.

The ICC therefore urges all governments to take up this issue and enter into negotiations to develop an international agreement based upon the principles outlined above, to permit the unimpeded establishment and participation of international service industries wishing to operate internationally.

A GLOBAL FRAMEWORK OF IMPEDIMENTS TO TRADE IN SERVICES

The following classification of barriers to services trade is based on the premise that, notwithstanding the differences in activity among the different service industries covered, the underlying principles of liberal trade and fair competition are common to all. It attempts to draw together data on obstacles to trade in services experienced in specific industries and to classify it in terms of these underlying economic principles. This classification then offers a manageable framework of non-tariff barriers to trade which can be used as a model for a negotiated liberalisation to international trade in services.

1. Rights of Establishment and Access to Markets

Establishment in third countries is, in general, more important for many service industries who wish to conduct international transactions than it is for manufacturing industries, as in many cases the provision of the service relies on the existence of a local office or outlet.

However, an additional factor in the successful establishment of a local office is the ability of a firm to gain realistic access to the market in which it wishes to operate. For transport services, for instance , the ability of a vessel to put down and pick up passengers or freight in a particular area is of greater importance when considering market access than is the establishment of a local agency. Any discussion of establishment questions, therefore, should cover equally both establishment legislation - "the bricks and mortar" - and freedom of access to markets. Restrictions on establishment and market access for service industries appear to be some of the most important deterrents to international trade in services for all industries.

Impediments in this category arise from the complete or partial denial of access to a market as a result of:

1) prohibition upon the establishment of local operations or upon the importation of a service by a foreign firm.
2) the operation of a system of licences, required by foreign firms before establishment or import of the services is permitted, which act as a quota upon the number or type of foreign firms granted access.

3) legislation which obliges foreign firms to operate under significantly different conditions to domestic firms, thus increasing the cost or decreasing the attractiveness of the service offered in a discriminatory manner.

Examples

Under section 1 above

a) legal prohibition of the establishment of firms.

b) the prohibition upon foreign investment in an existing domestic industry.

c) cabotage, i.e. the reservation of a country's domestic operations to its national flag carriers.

d) limitations on the freedom to pick up or put down passengers/freight in the country concerned, or to proceed through national territory.

e) the prohibition or limitation upon the activities of brokers of services to conduct their business on international markets.

Under section 2 above

a) procedural impediments in the granting of the licence.

b) the requirement that the foreign firm be able to offer a service materially different from those offered by domestic firms before the licence is granted.

c) licences may only cover limited activities, and those activities not included in the licence may not be practised.

d) non-recognition of professional licences to practice awarded in other countries.

Under section 3 above

a) the imposition of cargo-sharing or cargo-allocating agreements, either in national legislation or through the forced use of certain contract clauses.

b) limitations in foreign equity holdings or on the amount of capital required for initial investment.

c) discriminatory restrictions upon the level of sales of a foreign firm.

d) discriminatory restrictions upon the level of advertising of a foreign firm.

2. Government Economic Policy and Regulation

Although legislation is necessary to regulate certain aspects of commerce, and to further government macro-economic policies, such legislation often results in practice in barriers to international trade, as its application to domestic and to foreign firms is, in many cases, inconsistent. The legislative measures included in this category are diverse, but when brought together, they represent one of the most common and most effective impediments to international trade in services, in both the industrialised and the developing nations.

Impediments in this category arise where local government economic policy measures discriminate between the operations of domestic and foreign firms, thus providing significantly different operating conditions for the two competing groups.

1) national treatment is not extended to foreign firms.

2) government legislation effectively impedes the export of the service.

3) the application in practice of legislation in the host country is undertaken in an effectively discriminatory manner.

Examples

Under 1 above

a) Foreign firms often face different tax regimes to those faced by domestic firms.

   i) Corporation tax is levied at a higher level on foreign firms than on domestic ones.

   ii) The purchase tax on the service can be set off against the buyer's own corporation tax when domestic services are purchased, but this practice is not extended to the services of foreign firms.

iii) In countries which have no bilateral agreements, or which do not recognise the OECD Convention on Income and Capital, the problem of double taxation arises.

b) Credit facilities extended by governments are often unavailable to foreign suppliers, and private credit sources are often limited in their provision.

c) Exchange control regulations which hamper the repatriation of profits or the movement of remittances, and influence the location of the service transaction.

d) Discriminatory regulations between foreign and domestic firms with regard to contracts, documents required, etc.

Under 2 above

a) taxation practices applying to citizens working abroad act as a disincentive to trade and personnel movement.

b) the extraterritorial application of domestic laws brings the service industry into conflict with the laws of foreign governments when conducting international operations.

Under 3 above

a) The lack of easily obtainable information on local government regulations and policy measures.

b) Problems in gaining access to officials, courts, etc., to file disputes or resolve problems, or the existence of biased procedures once access has been obtained.

c) The use of technical regulations, standards, certification systems on safety, health and manning levels, etc. to discriminate against foreign firms.

3. Direct Government Intervention

In addition to their legislatory role in providing a stable legal framework for commerce and in furthering macro-economic policy, governments in many cases directly intervene in the functioning of the market mechanism to influence market-based decisions, and to further regional, social and industrial policies.

Impediments in this category arise where the competitive position of firms operating in a market is distorted by direct government micro-economic intervention. Such intervention may be by the government itself, by government agencies, or government-controlled corporations.

Such impediments can be split into two categories:

1) government intervention which attempts to favour or improve the competitive position of certain individual firms.
2) intervention which specifically hampers the competitive conditions of foreign firms.

Examples

Under 1 above	a) Government grant and loan facilities offered to industry to further regional and social policies which are not available to foreign firms.
	b) Requirements that ancilliary activities be provided by local firms and sales organisations.
	c) The selling below cost of competitive services by local government-owned firms.
Under 2 above	a) Restrictions on contractual freedom and the setting of prices and charges.
	b) Restrictions or delays in the importation of or access to equipment and utilities necessary for the operation of the service activity.

c) Requirement that factors of production (land and equipment) be leased rather than pursued by foreign firms.

d) Restrictions on the employment of expatriate staff required for the operation of a local office.

4. Government Procurement

A further source of government-imposed barriers to trade in services arises in the field of government procurement, in which the government participates directly in the market as a purchaser of services or in the tendering of government contracts.

Impediments in this category arise where governments discriminate between domestic and foreign firms when undertaking their own activity.

1) government procurement procedures limit government purchases or the tendering of government contracts to local firms.

2) there is an absence of explicit procedures and regulations concerning government procurement, or existing regulations concerning procurement are not applied, allowing discretion and discrimination in procurement issues.

Examples

Under 1 above

a) Specific regulations limit purchases by government departments, local governments and state-owned corporations to certain designated firms.

b) Government tenders are only offered to specific firms.

c) Contract clauses effectively control the allocation of the services (the use of FOB purchase and CIF sale clauses to regulate shipping).

Under 2 above

a) The lack of specific regulations allows an element of preference to be introduced in awarding government contracts.

STATEMENT OF DAVID H. SMITH, ESQUIRE
NIKE, INC.

NIKE, Inc. of Beaverton, Oregon, applauds the efforts of the United States Trade Representative and the entire U.S. Delegation to the recently concluded GATT Ministerial in Geneva, and concurs in the assessment thereof contained in the Statement of Ambassador Brock before the Senate Finance Committee on January 25, 1983.

In 1972, one year prior to the last GATT Ministerial, NIKE, Inc. began manufacturing athletic footwear in Japan exclusively for the U.S. market. At that time, the company had a total of 45 employees, produced no footwear in the U.S., and its total revenues were less than $3 million. Ten years later, NIKE is the second largest manufacturer and distributor of athletic footwear in the world, with current fiscal year revenues expected to exceed $900 million. NIKE shoes are manufactured in fifteen countries and sold in fifty foreign markets. And today NIKE produces approximately 13,000 pairs of athletic shoes daily in the United States and almost none in Japan. It employs approximately 3,500 persons in the United States, almost 2,000 of whom are engaged directly in the manufacturing process. Domestic production and employment have increased every year since 1974, and 1982 world-wide sales of domestically produced NIKE footwear doubled the company's total 1977 footwear sales, wherever produced.

The compelling lesson to be learned by NIKE's experience over the last ten years is that an aggressive analysis of world-wide markets and forthright examination of world-wide sources of supply can result in a positive and long-term restructuring of U.S. industrial competitiveness, both at home and abroad. It is equally clear, however, that both the inclination and ability of the U.S. industrial sector to adapt and grow, to take on new dimensions and establish competitive niches within the global industrial structure, is highly dependent upon the continuing commitment to a strong and open international trading system as fundamentally embodied in GATT.

That commitment is currently under attack, both here and abroad. The current crisis in national economies throughout the world, including the United States, is well known and requires no documentation. Many of our trading partner nations are suffering through rates of inflation far greater than the rates which the U.S. experienced in the recent past. Unemployment in many of these nations exceeds the high, unacceptable level which we are experiencing today. As a consequence of this economic chaos, international trade has become both distorted and, at the same time, the target of uninformed opinion suggesting that free trade is a significant contributing factor to, if not the cause of, all these economic ills. For some, the solution to world economic problems is to be found in a "circle-the-wagons" approach involving establishment of trade barriers, quotas and high import tariffs which artificially support industries claiming special favor or extraordinary assistance in times of difficulty. For some, the lessons of the last great depression, and the utter failure of the Smoot-Hawley Tariff Act of 1930, have not been learned. Perhaps more than any of our trading partners, the United States ought to appreciate the fallacy in the belief that the solution to economic difficulty experienced by domestic industries is imposition of restrictions on international trade and world competition.

The leadership demonstrated by Ambassador Brock in Geneva is clear and comforting evidence of the Administration's appreciation of this historical lesson. It is evidence as well that with regard to international trade policy the balance of the free world continues to follow the example of the United States, if not in lockstep at least in direction and momentum. Indeed, it would be unfair and unthinking to measure the success of this Ministerial on the basis of specific actions implemented on each agenda item when the more overriding issue involved was the very will of Contracting Parties to recommit themselves to an international trading system.

For having rekindled that will, the U.S. Delegation deserves our thanks and our support. Similarly, the 98th Congress must confirm the political commitment made by the Contracting Parties at Geneva by resisting protectionist pressures in the formulation and implementation of national policy and in proposing legislation. Clearly, there could be no worse time to turn our backs on our international obligations by enacting local content legislation, imposing quotas, or pursuing any other retaliatory practices outside the GATT framework. Should the United States cease to lead by example, the international trading systems, as embodied in GATT, will not simply stagnate - it will sour and spoil, polluting the chances of global and national economic recovery for decades.

NIKE does not claim that all world markets are open without exceptions or restrictions to our athletic footwear. Indeed, to the extent unreasonable and unfair trade practices exist abroad to the detriment of U.S. and world-wide exports, we hope that our government will pursue remedial action within the confines of international trading laws. Where such international agreements fall short of insuring mutual commitment, we encourage our government to aggressively negotiate appropriate changes therein. An equitable and enforceable Safeguards Code, for example, should be the highest priority for our Trade Representative, because it would directly and affirmatively impact upon all private sector interests in the U.S. The negotiation of an international Counterfeiting Code is also of grave concern to U.S. industry in general, and particularly to those segments which are highly brand-oriented, such as athletic footwear.

Yet if the United States itself undertakes a unilateral course of conduct outside the parameters of GATT, our trading partners predictably will only shrug deeper into their already crystalizing cocoons. In that event, our actions will have served only to establish momentum towards the lowest common denominator of global protectionism, to the great detriment of our own evolving industries. As then Chairman of the Council of Economic Advisors, Murray Weidenbaum, stated before the Senate on July 9, 1981: "The question is frequently asked, 'Other nations do not have a policy of free trade. Why should we?' But rather than ask if other countries practice 'free' trade, I would ask if their trade policies are more open today than they would be without the continued pressure of agreed international rules of the game - rules often developed under the persistent and patient influence of the U.S. government. My answer is a resounding yes."

NIKE and other similarly situated American companies desire to continue their established patterns of growth, of adjustment to international standards of competitiveness, of penetration of world markets and of commensurate increases in U.S. production and exports. We believe that this can be accomplished only within a strong and open international trading system. If the Ministerial in Geneva did nothing other than keep the GATT system together, it was a success. Liberalization of the system is now an objective to be pursued. Abandonment of the system is simply unacceptable.

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